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**STATE EMPLOYEES'  
RETIREMENT SYSTEM**

**COMPONENT UNIT  
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 1991**

STATE EMPLOYEES'  
RETIREMENT SYSTEM  
OF ILLINOIS

2101 South Veterans Parkway  
P.O. Box 19255  
Springfield, Illinois 62794 - 9255

Prepared by the  
Accounting Division

*Printed by Authority of the State of Illinois*

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## **Introductory Section**

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**Letter of Transmittal**

**Administration, Board of Trustees and Administrative Staff**

**Certificate of Achievement for Excellence in Financial Reporting**



- State Employees' Retirement System of Illinois
- General Assembly Retirement System
- Judges' Retirement System of Illinois

2101 South Veterans Parkway, P.O. Box 19255, Springfield, IL 62794-9255, Ph. (217)785-7444

November 22, 1991

The Board Of Trustees and Members  
State Employees' Retirement System  
Of Illinois  
Springfield, IL 62794

Dear Board and Members:

The component unit annual financial report of the State Employees' Retirement System of Illinois (System) for the fiscal year ended June 30, 1991 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the System. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included.

The report consists of six sections:

1. An Introductory Section which contains this letter of transmittal and the identification of the administrative organization;
2. The Financial Section which contains the report of the independent public accountants, the financial statements of the System, and the required supplementary and additional financial information;
3. The Actuarial Section which contains the report of the Actuary as well as the summary of major actuarial assumptions and certain tables;
4. The Investment Section which contains a summary of the System's investment management approach and selected summary tables, including investment performance;
5. The Statistical Section which contains significant statistical data; and
6. A summary of the System's plan provisions and current legislative changes.

The combined financial statements include the State Employees' Retirement System Trust Fund (System Trust Fund) and the Social Security Contribution Fund (Contribution Fund), an Agency Fund. Based primarily upon the criteria of financial interdependency and ability to significantly influence operations and accountability for fiscal matters, the System has included the Social Security Contribution Fund in its combined financial statements. Although the State Employees' Retirement System, Judges' Retirement System and General Assembly Retirement System share a common administration, they are separate entities for legal and financial reporting purposes. Therefore, the financial statements of the State Employees' Retirement System do not include balance sheet information nor the results of operations of the General Assembly Retirement System or Judges' Retirement System.

#### **PLAN HISTORY AND SERVICES PROVIDED**

The System is the administrator of a single-employer public employee retirement system established to

provide pension benefits for State of Illinois employees. The System also administers widows and survivors benefits as well as the state's occupational and non-occupational disability programs.

The System Trust Fund was established January 1, 1944 and 17,237 state employees became members on that date. As of June 30, 1944, net assets of the System amounted to \$1,255,778. Plan assets at the end of the fiscal year June 30, 1991 are approximately \$3.0 billion, and there are 81,023 active members.

Significant events and dates during the forty-seven year history of the System Trust Fund are as follows:

**January 1, 1969:** All members of the System Trust Fund (excluding State Police) had the option of voting to coordinate their benefits with the federal social security program or remain exclusively under the System Trust Fund. Any employee becoming a member of the System Trust Fund after December 31, 1968 was mandatorily covered by social security, unless the nature of their position excluded them from participation (i.e., "police" and "firemen" positions).

**October 1, 1975:** Several additional position classifications were determined to meet the definition of "police" for purposes of rendering the members ineligible for social security coverage.

**January 1, 1982:** A new benefit formula was established for members working at the Department of Corrections who have daily or direct contact with inmates.

**August 23, 1989:** Governor James R. Thompson signed Senate Bill No. 95 into law (P.A. 86-0273). The bill provides for a seven year "phase - in" approach to funding by the State of Illinois. The long term intention is to provide contributions sufficient to cover "normal cost" of the System Trust Fund and also amortize any prior year underfunding by the state.

## REVENUES

Collections of employer and employee retirement contributions, as well as income from investments, provide the reserves necessary to finance retirement benefits. These income sources totaled \$416.8 million during the fiscal year ending June 30, 1991, which is a slight decrease from revenue reported for fiscal year 1990, shown as follows:

	1991 (Millions)	1990 (Millions)	Increase/(Decrease) (Millions) (Percentage)	
Retirement System Trust Fund				
Contributions:				
Employees	\$ 120.2	\$ 110.1	\$ 10.1	9.2%
Employer	116.0	107.9	8.1	7.5
Investments	180.5	213.2	(32.7)	(15.3)
	<u>\$ 416.7</u>	<u>\$ 431.2</u>	<u>\$ (14.5)</u>	<u>(3.4)%</u>
Social Security Contribution Fund				
General Revenue,				
less balances lapsed	.1	.1	-	-
	<u>\$ 416.8</u>	<u>\$ 431.3</u>	<u>\$ (14.5)</u>	<u>(3.4)%</u>

Employee contributions have exceeded employer contributions for the past three fiscal years; and, as indicated in the total above, a substantial portion of the total revenue is derived from investment income. Investment income includes the realization of net gains on the sales of investments, during both fiscal years 1991 and 1990.

## EXPENSES

The primary expense of a retirement system relates to the purpose for which it is created; namely the payment of benefits. These payments, together with the expense to administer the plan, constitute the total expenses of the System Trust Fund. Expenses of the System Trust Fund and Social Security Contribution Fund for 1991 and 1990 are shown for comparison purposes.

	1991 (Millions)	1990 (Millions)	Increase/(Decrease)	
			(Millions)	(Percentage)
<b>Retirement System Trust Fund</b>				
<b>Benefits:</b>				
Retirement annuities	\$ 166.4	\$ 154.4	\$ 12.0	7.8%
Survivors' annuities	23.6	22.0	1.6	7.3
Disability benefits	16.6	15.3	1.3	8.5
Lump-sum death benefits	8.7	7.9	.8	10.1
	<u>\$ 215.3</u>	<u>\$ 199.6</u>	<u>\$ 15.7</u>	<u>7.9%</u>
Refunds (including Transfers)	11.8	12.3	(.5)	(4.1)
Administrative expenses	3.8	3.9	(.1)	(2.6)
	<u>\$ 230.9</u>	<u>\$ 215.8</u>	<u>\$ 15.1</u>	<u>7.0%</u>
<b>Social Security Contribution Fund</b>				
Administrative expenses	<u>.1</u>	<u>.1</u>	<u>-</u>	<u>-</u>
	<u><u>\$ 231.0</u></u>	<u><u>\$ 215.9</u></u>	<u><u>\$ 15.1</u></u>	<u><u>7.0%</u></u>

The increase in benefit payments results primarily from a growth in the number of benefits paid and an increase in the average benefit payment amount.

## INVESTMENTS

Income from investments has, over the years, increasingly become a greater share of the total revenue of the System. Net investment income, combined with a net realized gain on the sale of investments, amounted to \$180,520,373 during fiscal year 1991, a decrease of \$32,619,351 from fiscal year 1990. This reflects the general stability of the stock market and lower interest rates in the bond markets during the last fiscal year. Income from investments represents 43.3% of total fund revenue. The ISBI had a 7% rate of return on market values for the year ended June 30, 1991.

A detailed discussion of investment performance and strategies is provided in the Investment Section of this report.

## FUNDING AND RESERVES

Funding is the process of specifically allocating monies for current and future use. Proper funding includes an actuarial review of the fund balances to ensure that funds will be available for current and future benefit payments.

The actuarial determined liability of the System using the projected unit credit actuarial method at June 30, 1991, amounted to \$4,949.9 billion. The fund balances for participant contributions, interest accumulations and other future benefits amounted to \$2,981.4 billion as of the same date. The amount by which the liability exceeds the reserves is called the "unfunded present value of credited projected benefits". The unfunded present value of credited projected benefits amounted to \$1,968.5 billion and reflects the continuing state policy of appropriating funds at amounts less than the actuarially determined contribution requirement. A detailed discussion of funding is provided in the Actuarial Section of this report.

## ECONOMIC CONDITION AND OUTLOOK

The state's policy on pension funding has been based on variations of the pay-as-you-go approach. Since fiscal year 1982, state appropriations have been less than 100% of benefit payout, and, during the past ten years have been as little as 44% of benefit payout.

Financing the retirement benefits that are being earned is one of the most important issues facing the System Trust Fund. Over the years, a number of organizations have stressed the need for sound funding of the System. In August 1989, then Governor Thompson signed Senate Bill 95 into law. This Bill provided for the increased funding of the unfunded actuarial liability which has been steadily increasing over the past several years. The amortization period of the unfunded liability was established at 40 years and is scheduled to begin in 1996. In order to defer the cost of a substantial increase in the required employer contributions, a seven year phase-in period was included in the legislation. The seven year phase-in period was to be used to increase the amount of contributions from the current contribution level to that level required for the amortization of the unfunded liability over the 40-year period.

Assessing the financial status of any retirement system is a difficult task. The valuation of pension liabilities is a complex procedure requiring the application of actuarial techniques. It is not possible to provide a simple measure of the financial status of a retirement system because no universally accepted measure of the financial status presently exists. By any reasonable actuarial standard, however, the System's present financial condition must be described as precarious due to the continually increasing dollar level of the unfunded liability. The events in the financial markets during the past several years serve as a constant reminder of the fact that no source of revenue can be guaranteed and that the responsibility for a sound funding policy and the related liability for contributions rests ultimately with the State of Illinois.

## MAJOR INITIATIVES

During the past fiscal year, the System completed work on several major projects. A Publication Section has been integrated into the System and it is responsible for the production of all newsletters, agency forms and this annual report. The Entitlement Video was updated and the election of an active member and retiree to the Board of Trustees was held. Ms. Doris Clark, retiree, was re-elected to her second term as trustee and Mr. Jerry Rittenhouse is the newly elected active member.

Several projects were initiated in fiscal year 1991 and will be continued into fiscal year 1992; among the most significant are: a) establishment of a data base of seminar attendees for the Field Services Division, b) service credit messages on employee annual statements, c) the development of a new workshop for annuitants, and d) a review of internal accounting reports and the processing of data flow.

New projects for fiscal year 1992 include two major programs: 1) On July 24, 1991, Governor Jim Edgar signed Senate Bill 0045 into law as Public Act 86-0014. This bill allows for an early retirement incentive for employees meeting certain criteria specified in the bill. Basically, an employee will be allowed to establish up to 60 months of additional creditable service upon payment of the required contributions at one-half of the normal contribution rate; and 2) Effective January 1, 1992, the state will "pickup" or make payment on behalf of employees for their share of retirement contributions to the System. This pickup will be done on an agency-by-agency basis and will require agency director certification.

## ACCOUNTING SYSTEM AND INTERNAL CONTROL

This report has been prepared to conform with the principles of governmental accounting and reporting pronounced by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The accrual basis of accounting is used to record the assets, liabilities, revenues and expenses of the System Trust Fund. Revenues are recognized in the accounting period in which they are earned, without regard to the date of collection, and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

The administrative expenses of the Social Security Contribution Fund are appropriated annually by the Illinois State Legislature and included in the financial statements of the System Trust Fund. The Contribution Fund uses the modified accrual basis of accounting. The System also uses the State of Illinois, Comptroller's Uniform

## Letter of Transmittal

Statewide Accounting System (CUSAS) as a basis for the preparation of the financial statements. In developing the System's accounting system, consideration is given to the adequacy of internal accounting controls. These controls are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. Constant effort is directed by the System at improving this level to assure the participants of a financially sound retirement system.

### PROFESSIONAL SERVICES

Independent consultants are retained by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the System. Actuarial services are provided by The Wyatt Company, Chicago, Illinois. The annual financial audit of the System was conducted by the accounting firm of McGladrey & Pullen under the direction of the Auditor General of the State of Illinois. The System's investment function is managed by the Illinois State Board of Investment.

### CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State Employees' Retirement System of Illinois for its component unit financial report for the fiscal year ended June 30, 1990. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.


In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized component unit financial report, whose contents conform to program standards. Such component unit financial reporting must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The State Employees' Retirement System of Illinois has received a Certificate of Achievement for the last five consecutive years (fiscal years ended June 30, 1986 through June 30, 1990). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

### ACKNOWLEDGMENTS AND COMMENTS

The preparation of this report reflects the combined efforts of the System's staff under the direction of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship for the assets contributed by the members in the State of Illinois. On behalf of the Board of Trustees, we would like to express our appreciation to the staff and professional consultants who worked so effectively to ensure the successful operation of the System.

Respectfully submitted,

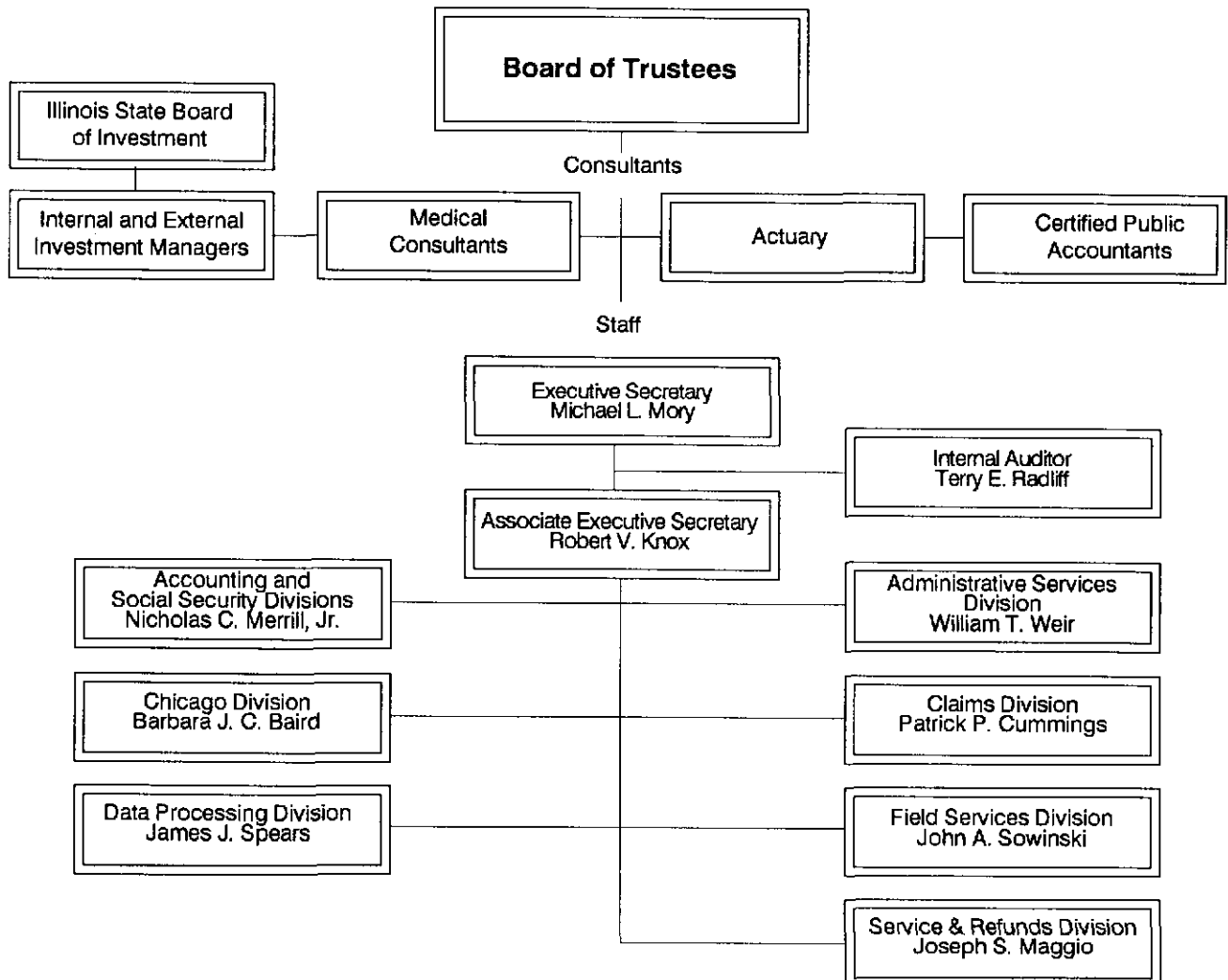
  
Michael L. Mory  
Executive Secretary

  
Nicholas C. Merrill, Jr., CPA  
Chief Fiscal Officer

## BOARD OF TRUSTEES



Left to Right: **Michael L. Mory**, Executive Secretary - **Jerry Rittenhouse**, elected state employee - **Joseph T. Pisano**, state employee appointed by the Governor - **Kenneth Obrecht**, Chairman, appointed by the Governor - **Doris Clark**, elected annuitant, **William Ledbetter**, representing Joan Walters, Director of the Bureau of the Budget - **Loren Iglarsh**, representing Dawn Clark Netsch, Comptroller - **J. Wayne Chambers**, annuitant appointed by the Governor



# Certificate of Achievement for Excellence in Financial Reporting

Presented to  
State Employees' Retirement  
System of Illinois

For its Component Unit  
Financial Report  
for the Fiscal Year Ended  
June 30, 1990

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose component unit financial reports (CUFR's) achieve the highest standards in government accounting and financial reporting.



*Gary R. Hordtem*

President

*Jeffrey L. Esall*

Executive Director

## **Financial Section**

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**Independent Auditor's Report**

**Financial Statements**

**Required Supplementary Information**

**Supplementary Financial Information**

**Additional Financial Information**



## McGLADREY & PULLEN

Certified Public Accountants and Consultants

### INDEPENDENT AUDITOR'S REPORT

To the Honorable Robert G. Cronson  
Auditor General, State of Illinois  
Springfield, Illinois

Board of Trustees  
State Employees' Retirement System of Illinois  
Springfield, Illinois

We have audited, as special assistant auditors for the Illinois Auditor General, the accompanying balance sheet of the State Employees' Retirement System of Illinois as of June 30, 1991, and the related statement of revenue, expenses and changes in fund balance for the year then ended. These component unit financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit. The component unit financial statements of the State Employees' Retirement System of Illinois as of and for the year ended June 30, 1990, were audited by other auditors whose report, dated October 19, 1990, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 1991 component unit financial statements referred to above present fairly, in all material respects, the financial position of the State Employees' Retirement System of Illinois as of June 30, 1991, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic component unit financial statements as of and for the year ended June 30, 1991, taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic component unit financial statements. The supplementary information as of and for the year ended June 30, 1991, has been subjected to the auditing procedures applied in the audit of the basic component unit financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic component unit financial statements taken as a whole. The related supplemental schedules for the years ended June 30, 1982 through 1990 have been derived from financial statements audited by other auditors whose reports thereon expressed an unqualified opinion.

*McGladrey & Pullen*

Springfield, Illinois  
October 18, 1991

## STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Combined Balance Sheets - June 30, 1991 and 1990

	1991	1990
<b>Assets</b>		
Cash	\$ 18,682,979	\$ 11,187,478
Cash, restricted for Social Security remittances	944,799	599,415
Receivables:		
Contributions receivable:		
Participants	4,823,032	4,449,365
Employing state agencies	6,469,173	2,927,125
Other accounts receivable	757,946	696,034
	<u>\$ 12,050,151</u>	<u>\$ 8,072,524</u>
Investments - held in the Illinois State Board of Investment Commingled Fund at cost (Market value: 1991, \$3,275,201,134; 1990, \$3,066,984,813) (Note 4)	2,949,573,783	2,775,885,256
Property and equipment, net of accumulated depreciation (Notes 9 and 12)	4,436,451	4,340,351
<b>Total Assets</b>	<u><b>\$2,985,688,163</b></u>	<u><b>\$2,800,085,024</b></u>
<b>Liabilities and Fund Balance</b>		
Benefits payable	\$ 1,484,896	\$ 1,503,057
Refunds payable	267,894	308,865
Administrative expenses payable (Note 8)	677,736	1,317,286
Participants' deferred service credit accounts	898,285	789,291
Unremitted Social Security contributions	436,539	223,636
Amounts held for Social Security remittances	508,260	375,779
<b>Total Liabilities</b>	<u><b>\$ 4,273,610</b></u>	<u><b>\$ 4,517,914</b></u>
<b>Fund Balance</b>		
Actuarial present value of credited projected benefits (Notes 4 and 6)	4,949,880,212	4,538,074,194
(Less) unfunded present value of credited projected benefits representing an obligation of the State of Illinois	(1,968,465,659)	(1,742,507,084)
<b>Total Fund Balance (Note 13)</b>	<u><b>\$2,981,414,553</b></u>	<u><b>\$2,795,567,110</b></u>
<b>Total Liabilities and Fund Balance</b>	<u><b>\$2,985,688,163</b></u>	<u><b>\$2,800,085,024</b></u>

See accompanying notes to financial statements.

## STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

State Employees Retirement System Trust Fund

Statements of Revenue, Expenses and Changes in Fund Balance

Years ended June 30, 1991 and 1990

	1991	1990
Revenue:		
Contributions:		
Participants	\$ 120,263,354	\$ 110,109,685
Employing State agencies and appropriations	115,979,568	107,938,094
Total Contributions revenue	<u>236,242,922</u>	<u>218,047,779</u>
Investments:		
Net investments income	159,804,265	153,781,412
Interest earned on cash balances	831,847	1,407,272
Net realized gain on sale of investments	19,884,261	57,951,040
Total Investments revenue	<u>180,520,373</u>	<u>213,139,724</u>
	416,763,295	431,187,503
General Revenue Fund appropriations, less balances lapsed	59,736	69,142
Total Revenue	<u>416,823,031</u>	<u>431,256,645</u>
Expenses:		
Benefits:		
Retirement annuities	166,360,086	154,368,901
Survivors' annuities	23,592,609	22,014,615
Disability benefits	16,655,172	15,313,434
Lump-sum death benefits	8,682,519	7,909,962
	215,290,386	199,606,912
Refunds	11,701,256	12,201,403
Administrative expense, System Trust Fund (Note 8)	3,773,536	3,887,148
Transfers to reciprocating retirement systems	150,674	123,776
	230,915,852	215,819,239
Administrative expense, Contribution Fund (Note 8)	59,736	69,142
Total Expenses	<u>230,975,588</u>	<u>215,888,381</u>
Excess of revenue over expenses	\$ 185,847,443	\$ 215,368,264
Fund Balance at beginning of year	<u>2,795,567,110</u>	<u>2,580,198,846</u>
Fund Balance at end of year	<u>\$2,981,414,553</u>	<u>\$2,795,567,110</u>

See accompanying notes to financial statements.

## STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements June 30, 1991 and 1990

**(1) Reporting Entity**

The State Employees' Retirement System of Illinois (System) is a component unit of the State of Illinois and is composed of the State Employees' Retirement System, a trust fund (System Trust Fund) and the Social Security Contribution Fund, an agency fund (Contribution Fund). The System Trust Fund and the Contribution Fund are considered part of the State of Illinois financial reporting entity and are included in the state's comprehensive annual financial report as a pension trust fund and an agency fund, respectively.

The System has developed criteria to determine whether other state agencies, boards or commissions which benefit the members of the System should be included within its financial reporting entity. The criteria include, but are not limited to, whether the System exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of public service and special financing relationships.

Based primarily upon the criteria of financial interdependency and ability to significantly influence operations and accountability for fiscal matters, the System has included the Social Security Contribution Fund in its combined financial statements.

**(2) Plan Description**

The System is the administrator of a single-employer public employee retirement system (PERS) established and administered by the State of Illinois to provide pension benefits for its employees. At June 30, 1991 and 1990, the number of participating state agencies, boards and commissions totaled:

	1991	1990
State agencies	42	42
State boards and commissions	51	48
Total	<u>93</u>	<u>90</u>

At June 30, 1991 and 1990 the System Trust Fund membership consisted of:

	1991	1990
Retirees and beneficiaries		
currently receiving benefits:		
Retirement annuities	24,283	23,864
Survivors' annuities	8,819	8,629
Disability benefits	1,583	1,501
	34,685	33,994
Inactive employees entitled to benefits but not yet receiving them	2,291	2,233
Total	<u>36,976</u>	<u>36,227</u>
Current Employees:		
Vested:		
Coordinated with Social Security	37,648	36,391
Noncoordinated	7,248	7,638
Nonvested:		
Coordinated with Social Security	34,797	33,903
Noncoordinated	1,330	1,279
Total	<u>81,023</u>	<u>79,211</u>

Operation of the System Trust Fund and the direction of its policies are the responsibility of the Board of Trustees of the System.

### **(a) Eligibility and Membership**

Membership is automatic for most state employees who are not eligible for another state-sponsored retirement plan. All persons entering state service, except those in positions subject to membership in other state sponsored retirement systems, persons employed after June 30, 1979 as public service employment program participants under the Federal CETA program, and enrollees in the Illinois Young Adult Conservation Corps, become members of the System upon completion of six months service. Employees appointed by the Governor and requiring confirmation by the State of Illinois Senate may elect to become members of the System.

### **(b) Contributions**

Participating members contribute specified percentages of their salaries for retirement annuities and survivors' annuities. Contributions are excluded from gross income for Federal and State income tax purposes. The total contribution rate is 4% if the member is coordinated with Social Security and 8% if the member is not coordinated. Certain employment categories which are eligible for benefits under alternative formulas contribute at the rate of 5 1/2% or 9 1/2 % depending upon whether or not the employee is coordinated with Social Security. Participants' contributions are fully refundable, without interest, upon withdrawal from state employment. The State of Illinois is obligated to make payment for the required departmental contributions, all allowances, annuities, any benefits granted under Article 14 of the Illinois Pension Code (Code) and all administrative expenses of the System Trust Fund to the extent specified in the Code.

### **(c) Benefits**

The System is governed by Article 14 of the Code. Vesting and benefit provisions under the System Trust Fund are defined in the Code. Employees who retire at or after age 60 with 8 years of credited service (or at age 55 with at least 30 years of credited service with reduced benefits) are entitled to an annual retirement benefit, payable monthly for life, in an amount based upon final average compensation and credited service. Employees with 35 years of credited service may retire at any age with full benefits. Final average compensation for retirement and survivors' annuities, is the employee's average salary, during a 48 consecutive month period within the last 120 months of service in which the total compensation was the highest. State policemen use their final rate of pay for the final average compensation.

Occupational and nonoccupational (including temporary) disability benefits are available through the System Trust Fund. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least eighteen months of credited service with the System Trust Fund. The nonoccupational (including temporary) disability benefit is equal to 50% of the monthly rate of compensation of the employee on the date of removal from the payroll. Occupational disability benefits are provided when the member becomes disabled as a direct result of injuries or diseases arising out of and in the course of state employment. The monthly benefit is equal to 75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by Workers' Compensation or payments under the Occupational Diseases Act.

Occupational and nonoccupational death benefits are also available through the System Trust Fund. Certain nonoccupational death benefits vest after eighteen months of credited service. Occupational death benefits are provided from the date of employment.

### **(3) Description of the Contribution Fund**

The Contribution Fund was established pursuant to the 1951 Social Security Enabling Act, Article 21 of the Illinois Pension Code. It is a special fund in the State Treasury which serves as a clearinghouse account for the collection and transmittal of federal social security contributions of participating state employees and employing agencies and political subdivisions.

Effective January 1, 1987, the responsibility for the collection and transmittal of Social Security contributions for state agencies and participating state employees was transferred from the System to the Office of the Comptroller of the State of Illinois. As of that same date, political subdivisions of the state became responsible for their own remittance of social security contributions to the federal government. The balances in this fund are being maintained for final settlement of open years.

#### (4) Summary of Significant Accounting Policies and Plan Asset Matters

##### (a) Basis of Accounting - System Trust Fund

The financial transactions of the System Trust Fund are recorded on the accrual basis of accounting and in conformity with generally accepted accounting principles. Employee and employer contributions are recognized as revenues in the period in which employee services are performed.

##### (b) Method Used to Value Investments

The System Trust Fund retains all of its available cash in a commingled investment pool managed by the Treasurer of the State of Illinois (Treasurer). All deposits are fully collateralized by the Treasurer. *"Available cash" is determined to be that amount which is required for the current operating expenditures of the System Trust Fund.* The excess of available cash is transferred to the Illinois State Board of Investment (ISBI) for purposes of long-term investment for the System Trust Fund.

Investments are managed by the ISBI pursuant to Article 22A of the Illinois Pension Code and are maintained in the ISBI Commingled Fund. Such investments are valued at the cost of the System Trust Fund's units of participation in the ISBI Commingled Fund. Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems. Management expenses are deducted monthly from income before distribution. Investment income is recognized when earned.

The investment authority of the ISBI is provided in Illinois Revised Statutes Chapter 108 1/2, Article 22A-112. The ISBI investment authority includes investments in obligations of the U.S. Treasury and other agencies, notes secured by mortgages which are insured by the Federal Housing Commission, real estate, common and preferred stocks, convertible debt securities, deposits or certificates of deposit of federally insured institutions and options. Such investment authority requires that all opportunities be undertaken with care, skill, prudence and diligence given prevailing circumstances that a prudent person acting in like capacity and experience would undertake.

Governmental Accounting Standards Board (GASB) Statement No. 3 entitled "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" requires certain financial statement disclosure of deposits and investments, such as the disclosure of carrying amounts by type of investment and classification into one of three categories based upon credit risk. Investments in pools managed by other governmental agencies, in general, are to be disclosed but not categorized because they are not evidenced by securities that exist in physical or book entry form.

The System Trust Fund transfers money to the ISBI for investment in the ISBI Commingled Fund. This money is then allocated among various investment managers to pursue a specific investment strategy. All investment transactions are initiated by the investment managers (either internal or external). The transaction settlement information is then forwarded to the agent bank's trust department under a master custodial agreement. Custody of a majority of the actual physical securities is maintained at an agent of the agent bank's trust department using a book-entry system. The agent of the master custodian is Depository Trust Company.

The ISBI Board participates in a securities lending program whereby securities are loaned to brokers and, in return, the ISBI Board receives collateral of amounts slightly in excess of the market value of securities loaned. Collateral consists solely of cash, letters of credit, commercial paper and government securities. As of June 30, 1991 and 1990 the ISBI Board had outstanding loaned investment securities having a market value of approximately \$313,109,467 and \$332,849,772 respectively, against which it had received collateral of approximately \$329,552,739 and \$337,371,274 respectively.

The System Trust Fund owns approximately 93.5% of the ISBI Commingled Fund as of June 30, 1991.

Following are the ISBI investments, as categorized in the ISBI annual financial report. They are categorized to indicate the level of risk assumed by the ISBI Board at year end. Category I includes investments that are insured or registered or for which the securities are held by the master custodian in the ISBI Board's name. Category II includes uninsured and unregistered investments for which the securities are held by the master custodian in the ISBI Board's name. Category III includes uninsured and unregistered investments for which the securities are held by an agent of the master custodian but not in the ISBI Board's name.

	Category I	Category II	Category III	Cost	Market Value
U.S. Government					
Obligations	\$ 575,488,977	\$ -	\$ -	\$ 575,488,977	\$ 588,016,750
Foreign Obligations - Bonds	25,492,490	-	-	25,492,490	24,762,061
Foreign Obligations - Equities	186,809,794	-	-	186,809,794	172,856,349
Corporate Obligations	658,082,641	-	-	658,082,641	680,616,840
Convertible Bonds	84,862,088	-	-	84,862,088	81,619,370
Common Stock &					
Equity Funds	1,040,601,506	-	-	1,040,601,506	1,271,667,415
Convertible Preferred Stock	15,634,110	-	-	15,634,110	15,277,541
Preferred Stock	10,441,162	-	-	10,441,162	3,213,256
Money Market Instruments	108,733,615	-	1,935,153	110,668,768	111,840,839
SUBTOTAL	<u>\$ 2,706,146,383</u>	<u>\$ -</u>	<u>\$ 1,935,153</u>	<u>\$ 2,708,081,536</u>	<u>\$ 2,949,870,421</u>
Real Estate Pooled Funds				295,958,956	341,066,237
Venture Capital				121,447,935	183,670,238
Other assets, less liabilities				28,407,190	28,407,190
TOTAL				<u>\$ 3,153,895,617</u>	<u>\$ 3,503,014,086</u>

## (c) Fixed Assets

Expenditures for fixed assets are capitalized and depreciated over their estimated useful lives.

## (d) Actuarial Experience Review

In accordance with Illinois Revised Statutes, an actuarial experience review is to be performed at least once every five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System. An experience review was performed as of June 30, 1990.

## (e) Administrative Expenses

Expenses related to the administration of the System Trust Fund are budgeted and approved by the System's Board of Trustees. Administrative expenses for the Contribution Fund are appropriated annually by the State Legislature and are included in the financial statements of the System Trust Fund.

## (f) Basis of Accounting - Contribution Fund

The collection and transmittal of federal Social Security contributions of participating state employees, employing agencies and political subdivisions through December 31, 1986, have been accounted for within the Contribution Fund on a modified accrual basis.

## (5) Funding Status and Progress

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the State Employees' Retirement System funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS.

At June 30, 1991 and 1990, the unfunded pension benefit obligation was \$1,968,465,659 and \$1,742,507,084 as follows:

	1991	1990
Pension benefit obligation:		
Retirees & beneficiaries currently receiving benefits	\$ 2,078,058,684	\$1,932,126,127
Terminated employees not yet receiving benefits	14,799,575	16,549,419
Current Employees:		
Accumulated employee contributions and interest	1,271,681,573	1,153,104,503
Employer-financed vested	1,433,978,680	1,308,230,363
Employer-financed nonvested	95,160,995	77,192,537
Inactive members - Accumulated contributions and interest	56,200,705	50,871,245
Total Pension benefit obligation	\$ 4,949,880,212	\$ 4,538,074,194
Net assets available for benefits, at cost	2,981,414,553	2,795,567,110
(market value at June 30, 1991 - \$3,305,041,904; 1990 - \$3,086,666,667)		
Unfunded pension benefit obligation	\$ 1,968,465,659	\$1,742,507,084

Public Act 86-1488, approved in January 1991, modified the date of application of the first automatic annual increase for widow and survivor annuities, added 3% automatic annual increases for disability benefits and occupational death annuities, and provided a six month window during which refunds could be repaid at the rate of 2.5% per annum. These changes had the effect of increasing the actuarial present value of credited projected benefits and the related unfunded actuarial liability by \$17,743,150 during fiscal year 1991.

Public Act 86-0273, which was signed into law on August 23, 1989, enacted several changes in the benefit provisions of the System effective January 1, 1990. These changes provide for (1) 3% automatic annual increases in retirement annuities based on the current amount of annuity instead of the originally granted amount of annuity and (2) a 3% automatic annual increase in the amount of survivors' annuities based on the current amount of annuity.

Public Act 86-0272, also signed on August 23, 1989, contained certain benefit changes regarding State Police service credit and removal of the age 70 limit on disability payments.

Benefit changes, enacted under Public Acts 86-0272 and 86-0273, had the effect of increasing the actuarial present value of credited projected benefits and the related unfunded actuarial liability by \$251,523,053 during fiscal year 1990.

The measure is the same as the actuarial funding method used to determine contributions to the System Trust Fund, discussed in Note 6 below.

The pension benefit obligation was determined as part of an actuarial valuation at June 30, 1991. Significant actuarial assumptions used include (a) rate of return on the investment of present and future assets of 8 percent per year compounded annually, (b) salary increase rates vary by age, ranging from .5% to 4.7% attributable to merit, and 4.5% attributable to inflation for all employees, (c) 85% of employees are presumed to be married, (d) the female spouse is assumed to be three years younger than the male spouse, (e) mortality rates are based upon the 1971 Group Annuity Mortality Table projected in 1986, (f) it is assumed that terminated employees will not be rehired, and (g) the rate of turnover without vested benefits assumes a high scale at younger age levels, becoming progressively lower as age advances.

The System's actuarial consultant performed an experience review for the five - year period ending June 30, 1990. Based upon the results of the review, several changes were made to the actuarial assumptions. These changes had the effect of increasing the Pension Benefit Obligation and the related unfunded pension benefit obligation by \$185,673,427, and were primarily the result of adjustments to expected salary increases, termination rates, and retirement rates.

## (6) Contributions Required and Contributions Made

On an annual basis, a valuation of the liabilities and reserves of the System Trust Fund is performed by the System's actuarial consultants in order to determine the amount of contributions required from the State of Illinois. For fiscal year 1991, the actuary has used the projected unit credit actuarial method for determining the proper employer contribution rate and amount. For fiscal year 1990, the actuarial consultants submitted several alternative cost methods with various amortization periods for the unfunded prior costs to the Board. Each alternative is considered an acceptable cost or funding method. The alternatives were presented to the Board as a result of the state's long standing funding policy described below. Employer contributions are expressed as a percentage of annual covered payroll. The Board evaluated the alternatives and certified a contribution rate within the range of alternatives. This rate was then used as the "actuarial required contribution" rate. The Board certified actuarial required contribution rates for fiscal years 1991 and 1990, were 4.72% and 6.2%, respectively.

In the past, the Illinois State Legislature has generally followed a funding policy of appropriating funds based upon a percentage of benefit payout for those agencies which receive appropriated monies. The appropriated employer contribution rate for the legislatively funded agencies was 4.15% for fiscal year 1991 and 4.4% for fiscal year 1990.

State agencies which do not receive state appropriated funds for their share of employer retirement contributions contribute at the Board certified rate.

It has been interpreted that the laws of the State of Illinois regarding state finance provide for the Governor and the state legislature to have specific authority to reduce or increase monies appropriated for the employer share of retirement contributions regardless of the rate certified by the Board of Trustees.

Based upon the Board certified rate of 4.72%, the total amount of employer contributions required for the fiscal year ended June 30, 1991 amounted to \$116,175,814. The total amount of employer contributions made was \$115,979,568 (normal cost - \$61,312,278, amortization of unfunded accrued actuarial liability - \$54,667,290) thereby resulting in an underfunding of \$196,246.

Schedule of Contributions Required and Contributions Made  
(in thousands)

	1991	1990	1989	1988	1987
Covered Payroll	\$ 2,461,352	\$ 2,270,303	\$ 2,106,121	\$ 1,953,960	\$ 1,825,196
Employer Contributions	\$ 115,980	\$ 107,938	\$ 98,472	\$ 99,991	\$ 109,560
Actual Employer Contribution Rate	4.71%	4.75%	4.68%	5.12%	6.00%
Board of Trustees Recommended Contribution Rate	4.72%	6.2%	6.3%	7.24%	8.4%
Employee Contributions	\$ 120,263	\$ 110,110	\$ 101,805	\$ 95,928	\$ 90,096
Employee Contribution Rate (Average)	4.89%	4.85%	4.83%	4.91%	4.94%

Beginning with the fiscal year which ended in 1990, the state's contribution was scheduled to be increased incrementally over a seven year period so that by the fiscal year ending June 30, 1996, the minimum contribution to be made by the state would be an amount that, when added to other sources of employer contribution, will be sufficient to meet the normal cost and amortize the unfunded liability over 40 years as a level percentage of payroll, determined under the projected unit credit actuarial cost method. The state contribution, as a percentage of the applicable employee payroll, was scheduled to be increased in equal, annual increments over the seven year period, until the funding requirements, specified above, are met.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation discussed in Note 5.

Public Act 86-1488, approved in January 1991, modified the date of application of the first automatic annual increase for widow and survivor annuities, added 3% automatic annual increases for disability benefits and occupational death annuities, and provided a six month window during which refunds could be repaid at the

rate of 2.5% per annum. These changes had the effect of increasing the actuarial present value of credited projected benefits and the related unfunded actuarial liability by \$17,743,150 during fiscal year 1991.

Benefit changes, enacted under Public Acts 86-0272 and 86-0273, had the effect of increasing the actuarial present value of credited projected benefits and the related unfunded actuarial liability by \$251,523,053 during fiscal year 1990.

The System's actuarial consultant performed an experience review for the five - year period ending June 30, 1990. Based upon the results of the review, several changes were made to the actuarial assumptions. These changes had the effect of increasing the Pension Benefit Obligation and the related unfunded pension benefit obligation by \$185,673,427.

### (7) Historical Trend Information

Historical trend information designed to provide information about the System Trust Fund's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 24-25.

### (8) Administrative Expenses

A summary of the administrative expenses of the System for fiscal years 1991 and 1990 are as follows:

	1991		1990	
	System Trust Fund	Contribution Fund	System Trust Fund	Contribution Fund
Personal services	\$1,869,680	\$ 26,364	\$ 1,687,553	\$ 27,359
Retirement contributions	89,200	1,100	104,927	1,698
Social Security contributions	128,806	1,951	114,037	1,991
Group insurance	124,240	-	110,362	-
Contractual services	651,981	27,075	850,705	30,454
Travel	39,350	1,470	40,490	2,360
Commodities	31,527	92	66,344	383
Printing	45,445	-	58,799	-
Equipment	-	-	-	3,027
Electronic Data Processing	532,190	784	583,924	984
Telecommunications	50,759	900	53,543	886
Automotive	6,521	-	7,926	-
Depreciation	126,218	-	155,631	-
Other	77,619	-	52,907	-
Total	<u>\$ 3,773,536</u>	<u>\$ 59,736</u>	<u>\$ 3,887,148</u>	<u>\$ 69,142</u>

The System's fiscal years 1991 and 1990 employer retirement contribution requirement represented .09% and .08% respectively of total contributions required of all state agency/department employers participating in the SERS. Pertinent financial information relating to the System's participation in SERS is summarized as follows:

- The System's total and covered payrolls for fiscal year 1991 and 1990 were \$2,219 thousand and \$2,047 thousand respectively.
- The System's (i.e., the employers') actuarially determined contribution requirements for fiscal years 1991 and 1990 were \$105 thousand and \$127 thousand, respectively, or 4.72% and 6.2% of the System's covered payrolls. For fiscal year 1991, the System's and employee contributions actually made were \$105 thousand and \$92 thousand, respectively, which represents 4.72% and 4.2%, respectively, of the current year covered payroll. For fiscal year 1990, the System's and employee contributions actually made were \$127 thousand and \$85 thousand, respectively, which represent 6.2% and 4.2%, respectively, of the covered payroll.

## (9) Property and Equipment

Fixed assets are capitalized at their cost at the time of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The estimated useful lives are as follows: (1) office furniture - 10 years, (2) equipment - 6 years, (3) automobiles and certain electronic data processing equipment - 3 years, and (4) building - 30 years.

Land is carried at its original cost, including applicable legal fees, surveying costs, etc.

A summary of the changes in fixed assets for 1991 and 1990 is as follows:

	Beginning Balance	1991		Ending Balance
		Additions	Deletions	
Land	\$ 655,241	\$ -	\$ -	\$ 655,241
Land Improvements	195,298	-	-	195,298
Building	3,141,538	25,382	-	3,166,920
Fixed Assets	974,222	218,222	(52,848)	1,139,596
Accumulated Depreciation	(625,948)	(126,218)	31,562	(720,604)
Property and equipment, net	<u>\$ 4,340,351</u>	<u>\$ 117,386</u>	<u>\$ (21,286)</u>	<u>\$ 4,436,451</u>

	Beginning Balance	1990		Ending Balance
		Additions	Deletions	
Land	\$ 655,241	\$ -	\$ -	\$ 655,241
Land Improvements	17,585	177,713	-	195,298
Building	268,688	2,872,850	-	3,141,538
Fixed Assets	672,172	350,620	(48,570)	974,222
Accumulated Depreciation	(509,713)	(155,631)	39,396	(625,948)
Property and equipment, net	<u>\$ 1,103,973</u>	<u>\$ 3,245,552</u>	<u>\$ (9,174)</u>	<u>\$ 4,340,351</u>

## (10) Lease Agreement

The System previously leased its facilities under a sixty (60) month agreement in effect through June 30, 1990. Under the terms of this lease, the System was required to make monthly payments which included a provision for utilities and building maintenance. Office rental expense amounted to \$269,799 for fiscal year 1990.

## (11) Accrued Compensated Absences

Employees of the System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after January 1, 1984 upon termination of employment. The value of accrued compensated absences as of June 30, 1991 and 1990 was \$416,143 and \$359,810, respectively.

## (12) New Office Facility

During the fiscal year ended June 30, 1990, the System completed construction of a new office facility. The cost of the building, including land, and land improvements was \$4,017,459 through June 30, 1991.

**(13) Analysis of Changes in Fund Balances - Reserved**

The System Trust Fund maintains three reserve accounts which, when combined, comprise the total reserved fund balance. The reserves are defined as follows:

- (a) Participants' contributions - accounts for assets contributed by each participant,
- (b) Interest accumulations - accounts for interest credited to each participant's account, and
- (c) Other future benefits - accounts for all assets not otherwise specifically provided for in items (a) and (b) above.

**State Employees' Retirement System Trust Fund  
Statements of Changes in Fund Balances (Reserved)  
Years ended June 30, 1991 and 1990**

	Participants' contributions	Interest accumulations	Other future benefits	Total Fund Balance
Balance at June 30, 1989	\$ 757,180,186	\$ 334,758,898	\$1,488,259,762	\$ 2,580,198,846
Add (deduct):				
Excess of revenue over expenses	93,218,474	-	122,149,790	215,368,264
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(27,373,147)	-	27,373,147	-
Interest credited to members' accounts	-	46,191,337	(46,191,337)	-
Balance at June 30, 1990	\$ 823,025,513	\$ 380,950,235	\$1,591,591,362	\$ 2,795,567,110
Add (deduct):				
Excess of revenue over expenses	102,817,359	-	83,030,084	185,847,443
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(28,153,235)	-	28,153,235	-
Interest credited to members' accounts	-	51,242,407	(51,242,407)	-
Balance at June 30, 1991	\$ 897,689,637	\$ 432,192,642	\$1,651,532,274	\$2,981,414,553

**(14) Legislation Passed Subsequent to Year End**

In July 1991, Governor Jim Edgar signed Senate Bill 0045 into law (P.A. 87-0014). This comprehensive bill provided for an Early Retirement Incentive (ERI) program for members of the System. Under certain circumstances a member would be allowed to establish up to 5 years of creditable service by making payment of the amounts prescribed in the statute.

Approximately 14,000 state employees will be eligible for the ERI program. While it is anticipated that 30% of those eligible to participate will take advantage of the ERI program, the actual cost to the System cannot be determined until the option period has closed.

## Required Supplementary Information

### Analysis of Funding Progress ( in millions of dollars )

FY	(1) Net Assets Available for Benefits*	(2) Pension Benefit Obligation**	(3) Percentage Funded (1) ÷ (2)	(4) Unfunded Pension Benefit Obligation (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded Pension Benefit Obligation as a % of Covered Payroll (4) ÷ (5)
1985	\$1,707.2	\$2,830.8	60.3%	\$1,123.6	\$1,569.5	71.6%
1986	1,974.1	3,082.8	64.0	1,108.7	1,713.8	64.7
1987	2,225.9	3,304.2	67.4	1,078.3	1,825.2	59.1
1988	2,381.8	3,490.7	68.2	1,108.9	1,954.0	56.8
1989	2,580.2	3,752.1	68.8	1,171.9	2,106.1	55.6
1990	2,795.6	4,538.1	61.6	1,742.5	2,270.3	76.8
1991	2,981.4	4,949.9	60.2	1,968.5	2,461.4	80.1

\*At cost

\*\*Pension Benefit Obligation information is not available for years prior to 1985.

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the System Trust Fund's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the public employees' retirement system (PERS). Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the System Trust Fund's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the PERS.

### Revenues by Source and Expenses by Type

#### Revenues by Source

FY Ended June 30	Member Contributions	State Contributions	Investment Income	Sub Total	General Revenue Fund Appropriations, Less balances Lapsed	Total
1982	\$69,300,949	\$61,500,375	\$101,697,502	\$232,498,826	\$145,503	\$232,644,329
1983	72,371,246	71,846,403	192,573,257	336,790,906	149,002	336,939,908
1984	73,442,196	86,464,279	150,170,315	310,076,790	168,700	310,245,490
1985	77,830,806	94,456,693	101,754,931	274,042,430	174,482	274,216,912
1986	84,563,536	102,213,693	240,235,534	427,012,763	186,885	427,199,648
1987	90,096,279	109,559,940	226,929,603	426,585,822	168,326	426,754,148
1988	95,928,239	99,990,922	148,802,057	344,721,218	127,288	344,848,506
1989	101,805,417	98,471,993	199,452,398	399,729,808	97,958	399,827,766
1990	110,109,685	107,938,094	213,139,724	431,187,503	69,142	431,256,645
1991	120,263,354	115,979,568	180,520,373	416,763,295	59,736	416,823,031

#### Expenses by Type

FY Ended June 30	Contribution Refunds and Transfers	Administrative Expenses, System Trust Fund	Other Expenses *	Sub Total	Administrative Expenses, Contribution Fund	Total
1982	\$100,453,675	\$13,942,805	\$2,245,727	\$114,162,083	\$145,503	\$114,307,586
1983	111,852,846	14,009,169	2,290,492	128,152,507	149,002	128,301,509
1984	120,996,071	14,145,496	2,428,623	137,570,190	168,700	137,738,890
1985	132,316,478	13,240,326	2,552,452	148,109,256	174,482	148,283,738
1986	143,548,518	13,780,843	2,848,181	160,177,542	186,885	160,364,427
1987	159,614,328	12,182,099	3,000,932	174,797,359	168,326	174,965,685
1988	173,644,549	11,983,814	3,169,935	188,798,298	127,288	188,925,586
1989	185,354,303	12,602,555	3,380,170	201,337,028	97,958	201,434,986
1990	199,606,912	12,325,179	3,887,148	215,819,239	69,142	215,888,381
1991	215,290,386	11,851,930	3,773,536	230,915,852	59,736	230,975,588

\*Net realized loss or (gain) on investments undistributed by the Illinois State Board of Investment. Accumulated net losses from 1970 through 1979 amounted to \$42,998,251. Since 1982 realized gains and losses have been distributed annually.

# Analysis of Employer Contributions Fiscal Year 1982 through 1991

Fiscal Year	(1) Board Approved Rate (A)	(2) Annual Covered Payroll	(3) Employer Contributions Required (1 x 2)	Employer Contribution Made				(8) (4+5+6+7) Total	(8-3) (Deficiency) of Contrib. Made Over Contr. Req.	(8 : 2) Employer Contrib. as a % of Covered Payroll
				(4) Employer Contr. (B)	(5) State Pension (C)	(6) Senate Res. No. 33 (D)	(7) Other (E)			
1982	6.820%	\$1,334,262,000	\$90,996,668	\$60,348,375	\$1,152,000	\$ -	\$ -	\$61,500,375	\$(29,496,293)	4.61%
1983	5.550	1,378,735,000	76,519,793	67,421,803	1,838,200	2,586,400	-	71,846,403	(4,673,390)	5.21
1984	6.400	1,437,546,000	92,002,944	81,358,279	2,378,000	2,728,000	-	86,464,279	(5,538,665)	6.01
1985	8.090	1,569,532,000	126,975,139	89,482,193	2,378,500	2,596,000	-	94,456,693	(32,518,446)	6.02
1986	7.532	1,713,755,000	129,080,027	97,741,393	2,130,000	2,342,300	-	102,213,693	(26,866,334)	5.96
1987	8.400	1,825,196,000	153,316,464	105,095,840	2,215,500	2,248,600	-	109,559,940	(43,756,524)	6.00
1988	7.240	1,953,960,000	141,466,704	97,725,922	1,673,700	591,300	-	99,990,922	(41,475,782)	5.12
1989	6.300	2,106,121,000	132,685,623	96,564,193	1,907,800	-	-	98,471,993	(34,213,630)	4.68
1990	6.200	2,270,303,000	140,758,786	104,019,494	2,030,000	-	1,888,600	107,938,094	(32,820,692)	4.75
1991	4.720	2,461,352,000	116,175,814	109,930,868	6,048,700	-	-	115,979,568	(196,246)	4.71

(A) = For fiscal years 1982 and 1985, the contribution rate shown is the minimum rate recommended by the actuarial consultants. The actual Board approved rate was 4.5% and 5.8% for FY 1982 and 1985, respectively. For all other years presented, the Board approved rate was at least equal to or greater than the minimum contribution rate recommended by the actuaries.

(B) = The System Trust Fund recognizes revenue based upon either the Board approved rate or the state appropriated rate, as appropriate.

(C) = The System Trust Fund receives an annual appropriation from the State Pension Fund. The State Pension Fund receives proceeds from the sale of abandoned and unclaimed property.

(D) = In fiscal year 1983, House Amendment No. 1 to Senate Bill 177 was adopted by the state legislature. This bill reduced the dollar amount appropriated for the employer's share of retirement contributions. Senate Joint Resolution No. 33 provided that the System Trust Fund would be repaid the amount of the Senate Bill 177 reductions at the rate of 20% per year over the succeeding five fiscal years, including interest at 6% per annum. Final payment was received in FY 1988.

(E) = In fiscal year 1990, the System Trust Fund received an additional appropriation from the State of Illinois for the employer contribution.

## Supplementary Financial Information

### Combining Balance Sheets June 30, 1991 and 1990

	1991			1990		
	Pension Trust Fund State Employees' Retirement System	Agency Fund Social Security Contribution	Total	Pension Trust Fund State Employees' Retirement System	Agency Fund Social Security Contribution	Total
<b>Assets</b>						
Cash	\$18,682,979	\$ -	\$18,682,979	\$11,187,478	\$ -	\$11,187,478
Cash, restricted for Social Security remittances	-	944,799	944,799	-	599,415	599,415
Receivables:						
Contributions receivable:						
Participants	4,823,032	-	4,823,032	4,449,365	-	4,449,365
Employing State Agencies	6,469,173	-	6,469,173	2,927,125	-	2,927,125
Other accounts receivable	757,946	-	757,946	696,034	-	696,034
	<u>12,050,151</u>	<u>-</u>	<u>12,050,151</u>	<u>8,072,524</u>	<u>-</u>	<u>8,072,524</u>
Investments	2,949,573,783	-	2,949,573,783	2,775,885,256	-	2,775,885,256
Property and equipment, net of accumulated depreciation	4,436,451	-	4,436,451	4,340,351	-	4,340,351
<b>Total Assets</b>	<u>\$2,984,743,364</u>	<u>\$944,799</u>	<u>\$2,985,688,163</u>	<u>\$2,799,485,609</u>	<u>\$599,415</u>	<u>\$2,800,085,024</u>
<b>Liabilities and Fund Balance</b>						
Benefits payable	\$1,484,896	\$ -	\$1,484,896	\$1,503,057	\$ -	\$1,503,057
Refunds payable	267,894	-	267,894	308,865	-	308,865
Administrative expenses payable	677,736	-	677,736	1,317,286	-	1,317,286
Participants' deferred service credit accounts	898,285	-	898,285	789,291	-	789,291
Unremitted Social Security contributions	-	436,539	436,539	-	223,636	223,636
Amounts held for Social Security remittances	-	508,260	508,260	-	375,779	375,779
<b>Total Liabilities</b>	<u>\$3,328,811</u>	<u>\$944,799</u>	<u>\$4,273,610</u>	<u>\$3,918,499</u>	<u>\$ 599,415</u>	<u>\$4,517,914</u>
<b>Fund Balance</b>						
Actuarial present value of credited projected benefits	4,949,880,212	-	4,949,880,212	4,538,074,194	-	4,538,074,194
(Less) unfunded present value of credited projected benefits representing an obligation of the State of Illinois (1,968,456,659)	-	-	(1,968,456,659)	(1,742,507,084)	-	(1,742,507,084)
<b>Total Fund Balance</b>	<u>\$2,981,414,553</u>	<u>\$ -</u>	<u>\$2,981,414,553</u>	<u>\$2,795,567,110</u>	<u>-</u>	<u>\$2,795,567,110</u>
<b>Total Liabilities &amp; Fund Balance</b>	<u>\$2,984,743,364</u>	<u>\$944,799</u>	<u>\$2,985,688,163</u>	<u>\$2,799,485,609</u>	<u>\$ 599,415</u>	<u>\$2,800,085,024</u>

### Social Security Contribution Fund Statements of Changes in Assets and Liabilities Years Ended June 30, 1991 and 1990

	1991				1990			
	Balance July 1, 1990	Additions	(Deductions)	Balance June 30, 1991	Balance July 1, 1989	Additions	(Deductions)	Balance June 30, 1990
<b>Assets</b>								
Cash, restricted for Social Security remittances	\$599,415	\$385,207	\$(39,823)	\$944,799	\$2,937,582	\$687,626	\$(3,025,793)	\$ 599,415
<b>Liabilities</b>								
Unremitted Social Security contributions	\$223,636	\$212,984	\$(81)	\$436,539	\$ 2,297,725	\$ -	\$(2,074,089)	\$ 223,636
Amounts held for Social Security remittances	375,779	132,481	-	508,260	639,857	-	(264,078)	375,779
	<u>\$599,415</u>	<u>\$345,465</u>	<u>\$(81)</u>	<u>\$944,799</u>	<u>\$2,937,582</u>	<u>\$ -</u>	<u>\$(2,338,167)</u>	<u>\$599,415</u>

**SYSTEM TRUST FUND**  
**Years Ended June 30, 1991 and 1990**

**SUMMARY OF REVENUES BY SOURCE**

	<u>1991</u>	<u>1990</u>
Contributions:		
Participants	\$116,775,047	\$108,468,302
Repayments of contributions refunded	1,557,177	479,238
Interest received from participants	1,931,130	1,162,145
Total participants contributions	<u>\$120,263,354</u>	<u>\$110,109,685</u>
Employing state agencies	\$109,930,868	\$104,019,494
State Pension Fund appropriation	6,048,700	2,030,000
Supplemental state contribution	-	1,888,600
Total state contributions and appropriations	<u>\$115,979,568</u>	<u>\$107,938,094</u>
Investments:		
Net investment income	\$159,804,265	\$153,781,412
Interest earned on cash balances	831,847	1,407,272
Net realized gain on sale of investments	19,884,261	57,951,040
Total investment revenue	<u>\$180,520,373</u>	<u>\$213,139,724</u>
Total Revenue	<u>\$416,763,295</u>	<u>\$431,187,503</u>

**SYSTEM TRUST FUND**  
**Years Ended June 30, 1991 and 1990**

**SUMMARY SCHEDULE OF CASH RECEIPTS  
AND DISBURSEMENTS**

	<u>1991</u>	<u>1990</u>
Cash balance, beginning of year	\$ 11,187,478	\$ 9,730,385
Receipts:		
Member contributions	116,770,488	107,175,386
Employer contributions	106,325,812	105,359,811
State Pension Fund contribution	6,048,700	2,030,000
Transfers from Illinois State Board of Investment	18,000,000	24,000,000
Interest income on cash balance	888,482	1,404,658
Claims receivable payments	781,573	725,830
Installment payments - prior service credit	1,190,383	632,804
Other	135,507	138,625
Total cash receipts	<u>\$250,140,945</u>	<u>\$241,467,114</u>
Disbursements:		
Annuity payments:		
Retirement annuities	\$166,566,596	\$154,494,116
Widow's annuities	2,810,129	2,866,006
Survivors' annuities	20,508,955	18,806,757
Death benefits	9,185,371	8,363,251
Disability benefits	14,942,334	13,602,436
Refunds	12,138,207	12,419,696
Administrative expenses	4,493,852	6,457,759
Transfers to Illinois State Board of Investment	12,000,000	23,000,000
Total cash disbursements	<u>\$242,645,444</u>	<u>\$240,010,021</u>
Cash balance, end of year	<u>\$ 18,682,979</u>	<u>\$ 11,187,478</u>

## REVENUES

Total revenue of \$416.7 million for FY 1991 was a \$14.5 million decrease from the FY 1990 level of \$431.2 million. Net income from investments and net realized gains on sales of investments decreased from the prior fiscal year.

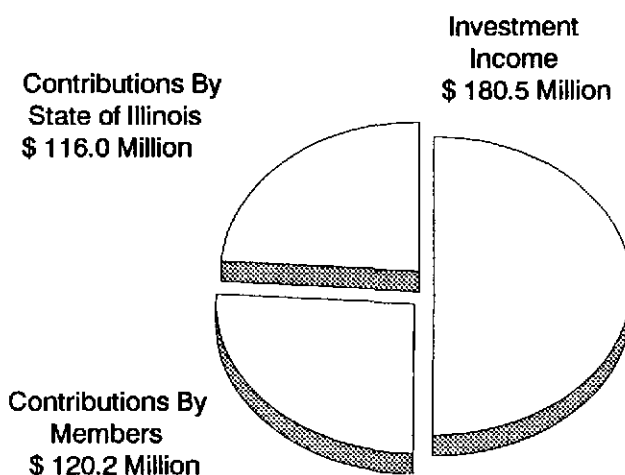
Revenue Source	FY 91 (Millions)	FY 90 (Millions)	Increase/(Decrease)	
			(Amount)	(Percentage)
Member Contributions	\$ 120.2	\$ 110.1	\$ 10.1	9.2%
State Contributions	116.0	107.9	8.1	7.5
Investment Income	<u>180.5</u>	<u>213.2</u>	<u>(32.7)</u>	<u>(15.3)</u>
Total	\$ 416.7	\$ 431.2	\$ (14.5)	(3.4)%

There were 1,812 more active members as of June 30, 1991 than on June 30, 1990. This increase of 2.3% in membership and average wage increases of 6.0% resulted in an increase of 8.4% in wages subject to retirement contributions. State contributions increased by 7.5% (\$8.1 million). Member contributions were \$120.2 million which is a \$10.1 million increase from FY 1990. As shown in the table below, the average rate of contributions by members in FY 1991 was 4.89% compared to 4.85% in FY 1990.

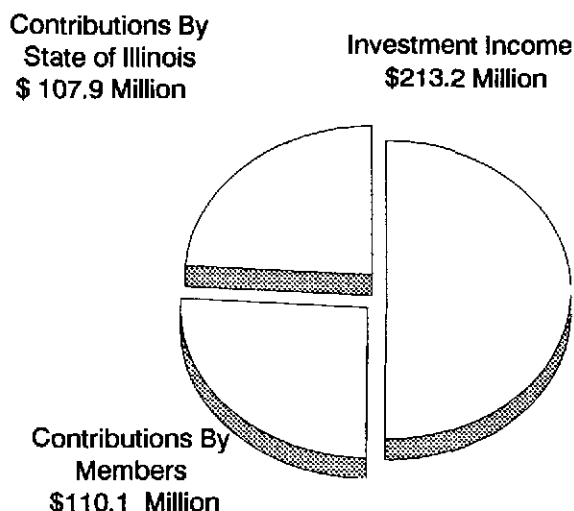
Active Membership	FY 91	FY 90	Increase/(Decrease)	
			(Number/Amount)	(Percentage)
Coordinated Members	72,445	70,294	2,151	3.1%
Noncoordinated Members	<u>8,578</u>	<u>8,917</u>	<u>(339)</u>	<u>(3.8)</u>
Total Active Members	81,023	79,211	1,812	2.3%
Earnings Reported				
All Members (Millions)	\$2,461.4	\$2,270.3	\$ 191.1	8.4%
Average Rate of Contributions				
All Members	4.89%	4.85%		

The System has approximately \$890,000 of arrearages and overpayments as of June 30, 1991. There were 118 accounts with arrearages, 498 claim overpayments and 4 refund overpayments. The System employs several different methods for the collection of its outstanding receivables. These methods include collections by the System, use of the office of the Comptroller's involuntary offset system, contracting with private collection firms and legal action through the office of the Attorney General.

**REVENUES BY SOURCE 1991**  
**TOTAL REVENUES**  
**\$ 416.7 MILLION**



**REVENUES BY SOURCE 1990**  
**TOTAL REVENUES**  
**\$ 431.2 MILLION**



Gross investment income for 1991 of \$170,533,511, less the Investment Board's administrative expenses of \$10,729,245, resulted in net investment income of \$159,804,266. This amount, when combined with the net realized gain on sale of investments of \$19,884,262, provided net revenue from investments of \$179,688,527. Transfers of funds to the Illinois State Board of Investment amounted to \$12,000,000 and transfers from the Board of \$18,000,000 resulted in a net reduction in investments of \$6,000,000. The balance of investments at cost increased by \$173,688,527 from June 30, 1990 through June 30, 1991. The following table shows a comparison of investment operations for FY 1991 and FY 1990.

	1991	1990	Increase/(Decrease) (Amount)	(Percentage)
Balance at beginning of year, at cost	\$ 2,775,885,256	\$ 2,565,152,803	\$ 210,732,453	8.2%
Cash remitted to (from) investment (net)	(6,000,000 )	(1,000,000 )	(5,000,000 )	N/A
Investment income:				
Commingled Fund income	170,533,511	163,024,017	7,509,494	4.6
Less Expenses	(10,729,245 )	(9,242,604 )	(1,486,641 )	16.1
Net investment income	159,804,266	153,781,413	6,022,853	3.9
Distributed Net Realized Gain/ (Loss) on Sale of Investments	19,884,261	57,951,040	(38,066,779 )	(65.7)
Balance at end of year, at cost	\$ 2,949,573,783	\$ 2,775,885,256	\$ 173,688,527	6.3%
Market value	\$ 3,275,201,134	\$ 3,066,984,813	\$ 208,216,321	6.8%

In addition, interest on the average balance in the System Trust Fund's account for FY 1991 was \$831,847 compared to \$1,407,272 during FY 1990.

**EXPENSES**

The number of members receiving retirement annuities on June 30, 1991 was 1.8% above the June 30, 1990 level reflecting the normal pattern of increase during the past 10 years; however, the cost of these annuities increased by 7.8% over the FY 1990 level. Higher salaries for current retirees, post retirement increases granted each January 1, and an increase in the minimum retirement annuity resulted in costs rising at a more rapid pace than the number of annuitants. Survivors' annuities increased at a near normal rate of 2.2% in number with 7.3% increase in dollar costs. Disability recipients increased by 5.5% while disability benefits increased in dollar amount by 8.5%.

	FY 91 (Millions)	FY 90 (Millions)	Increase/(Decrease) (Amount) (Percentage)	
Retirement annuities .....	\$166.4	\$154.4	\$12.0	7.8%
Survivors' annuities.....	23.6	22.0	1.6	7.3
Disability benefits .....	16.6	15.3	1.3	8.5
Lump sum death benefits .....	8.7	7.9	.8	10.1
Refunds (Including Transfers) .....	11.8	12.3	(.5)	(4.1)
Administrative expense .....	3.8	3.9	(.1)	(2.6)
<b>TOTAL EXPENSES .....</b>	<b>\$230.9</b>	<b>\$215.8</b>	<b>\$ 15.1</b>	<b>7.0%</b>

**NUMBER OF RECURRING BENEFIT PAYMENTS**

	FY Ended June 30, 1990	New claims Processed During FY 91	Benefits Ceased During FY 91	FY Ended June 30, 1991	Increase/(Decrease) (Amount) (Percentage)	
Retirement .....	23,864	1,428	1,009	24,283	419	1.8%
Survivors'.....	8,629	576	386	8,819	190	2.2
Disability .....	1,501	2,027	1,945	1,583	82	5.5
<b>TOTALS .....</b>	<b>33,994</b>	<b>4,031</b>	<b>3,340</b>	<b>34,685</b>	<b>691</b>	<b>2.0%</b>

Lump sum death benefits are primarily refunds of member contributions and will vary from year to year. Refunds to members have been decreasing in the past few years. The general decreasing trend in refunds is primarily due to the 6 month qualifying period required of new employees hired since January, 1984.

**RESERVES**

As of June 30, 1991, the funds available for payment of current and future benefits were \$2,981.4 million as shown in the following schedule:

Assets	FY91 (Millions)	FY90 (Millions)	Increase/ (Decrease)
Cash .....	\$18.7	\$ 11.2	\$ 7.5
Receivables (less payables) .....	8.7	4.2	4.5
Investments .....	2,949.6	2,775.9	173.7
Fixed Assets (net of accumulated depreciation) ..	4.4	4.3	.1
<b>NET ASSETS</b> .....	<u><b>\$2,981.4</b></u>	<u><b>\$2,795.6</b></u>	<u><b>\$ 185.8</b></u>

Total System Trust Fund revenues for FY 1991 of \$416.7 less expenditures of \$230.9 million resulted in a net increase to reserves of \$185.8 million.

Reserves	FY 91 (Millions)	FY90 (Millions)	Net Increase
Member Contributions .....	\$ 897.7	\$ 823.0	\$ 74.7
Interest Accumulations .....	432.2	381.0	51.2
Future Operations .....	1,651.5	1,591.6	59.9
<b>NET ASSETS</b> .....	<u><b>\$ 2,981.4</b></u>	<u><b>\$ 2,795.6</b></u>	<u><b>\$ 185.8</b></u>

Member contributions transferred to the Reserve for Future Operations due to retirement or death of active members during the year amounted to \$28.2 million.

**SOCIAL SECURITY**

On September 15, 1953, the State of Illinois and the Federal Government signed an agreement making social security coverage available to public employees in Illinois. In addition to extending new coverage, the System, as State Administrator, was responsible for collecting and transmitting social security contributions to the U.S. Department of Health and Human Services for approximately 1,600 towns, villages and other political entities. Members of two retirement systems in the State of Illinois, the Illinois Municipal Retirement Fund (IMRF) and the State Employees' Retirement System (SERS), are also covered by social security. During fiscal year 1991, the Social Security Unit receipted slightly more than \$385,000 of contributions from various political subdivisions and refunds from the federal government. In addition, the Unit vouchered approximately \$30,000 to political subdivisions as refunds of contribution overpayments and paid nearly \$10,000 to the U.S. Treasury. Due to the passage of federal legislation which mandated that state and local government employers conform to the same remittance schedule as private employers, the responsibility for the collection and remittance of Social Security and Medicare taxes was transferred from this agency to the Office of the Comptroller of the State of Illinois effective, January 1, 1987. Adjustments to Social Security or Medicare taxes for wages paid thru December 31, 1986, continue to be processed through the Contribution Fund. Subsequent to January 1, 1987, any adjustments to Social Security or Medicare taxes are reported through the Office of the Comptroller.

The Social Security Division has a staff of one full-time employee. Data processing and accounting services are performed by other divisions of the System on a contractual basis. Expenses are appropriated by the General Assembly and subsequently recovered from the reporting entities on a pro-rated basis. The total amount of expenses appropriated from the General Revenue Fund for the administration of the Contribution Fund was \$59,736 and \$69,142 for fiscal years 1991 and 1990, respectively.



**Actuary's Report**

**Introduction**

**Actuarial Cost Method and Summary of Major Actuarial Assumptions**

**Valuation Results**

**Glossary of Pension Terms**

**Short-term Solvency Test**

**Analysis of Funding**

**Analysis of Financial Experience**

**Schedule of Active Member Valuation Data**

**Schedule of Retirants Added to and Removed From Rolls**

**Schedule of Survivors' Annuitants Added to and Removed From Rolls**

**Schedule of Disability Recipients Added to and Removed From Rolls**

**Reconciliation of Unfunded Actuarial Liability**

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*Wyatt*

October 17, 1991

Board of Trustees and Executive Secretary  
State Employees' Retirement System of Illinois  
P. O. Box 19255  
2101 South Veteran Parkway  
Springfield, IL. 62794-9255

## ACTUARIAL CERTIFICATION

We have completed the annual actuarial valuation of the assets and liabilities of the State Employees' Retirement System of Illinois as of June 30, 1991.

Since the last valuation Senate Bill 1951, approved in January 1991, modified the date of application of the first automatic annual increase for widow and survivor annuities, added 3% automatic annual increases for disability benefits and occupational death annuities, and provided a six month window during which refunds could be repaid at an interest charge of 2.5% per annum. These legislative changes result in an increase of approximately 0.4% in the accrued actuarial liability (AAL).

Pursuant to the law establishing the System, the actuary shall investigate the experience under the System at least once every five years. The Wyatt Company, as the actuary, completed such a review for the five year period ending June 30, 1990 and recommended assumptions which were adopted by the Board effective June 30, 1990, and which were used for the current valuation. We believe that, in the aggregate, the current assumptions relate reasonably to the past and anticipated experience of the plan.

The financing objective of the System is to accumulate assets equal to the value of the portion of all future benefits that is based on members' service as of the valuation date. A contribution rate has been determined using the Projected Unit Credit Cost Method, providing for the normal cost plus an amortization of the unfunded accrued actuarial liability as required by Chapter 108-1/2, Par. 14-131(f) of the Illinois Pension Code. Future normal cost rates are expected to remain constant, as a percentage of payroll, while the amortization contribution rate will increase in equal annual increments from

Offices in principal cities worldwide

*Wyatt*

the 1992 fiscal year rate until the 1996 fiscal year rate is reached. The total contribution rate can thus be expected to rise gradually until June 30, 1996, remain level until June 30, 2035, and then drop to a constant normal cost rate. Employer contributions in recent years have been less than that required to meet this financing objective.

For purposes of determining contribution rates, assets have been valued at cost as reported by the Illinois State Board of Investment. The liabilities have been valued based on employee data which is supplied by the administrative staff of the System and verified by the System's auditor. We have made additional tests to ensure its accuracy.

In our opinion, the following schedule of valuation results fairly presents the financial condition of the State Employees' Retirement System of Illinois as of June 30, 1991. The contribution rate determined complies with the applicable law in force as of June 30, 1991.

## THE WYATT COMPANY

By Kimberly A. Boxell  
Kimberly A. Boxell  
Associate Of The Society of Actuaries

By S. Lynn Hill  
S. Lynn Hill  
Consultant

By Lloyd L. Nordstrom  
Lloyd L. Nordstrom  
Fellow Of The Society of Actuaries

## INTRODUCTION

The System Trust Fund receives contributions from several sources which can be considered as employer contributions, with the largest source being the regular state appropriation. The System Trust Fund receives an annual appropriation from the State Pension Fund, and in fiscal year 1990, also received a supplemental state appropriation.

Annually, the System's actuarial consultant prepares a valuation of the liabilities and reserves of the System Trust Fund in order to make a determination of the amount of contributions required from the state. In fiscal year 1991, the actuary has determined the required employer contribution rate and amount using the projected unit credit cost method. In fiscal year 1990 the Board reviewed and evaluated several alternative contribution rates supplied by the actuary. Upon completion of their review, the Board certified an employer contribution rate for all state agencies. Based upon the state's actual funding method described above, the System, in recent years, has not received the minimum actuarially determined employer contribution amount.

The employers' contribution amount, together with members' contributions, income from investments and any other income received by the System, shall be sufficient to meet the cost of maintaining and administering the System on a funded basis in accordance with actuarial reserve requirements, pursuant to Article 14-131 of the Illinois Revised Statutes. The statutes define "actuarial reserves" as "An accumulation of funds in advance of benefit payments which will be sufficient with respect to each member and his beneficiaries, if any, to pay the prescribed benefits, computed according to the actuarial tables, without further contributions by or on behalf of the member."

The underfunding of employer contributions continues to place undue pressure on one of the other major sources of revenue to the System, namely income from investments, to consistently provide an increasing percentage of total fund revenue. In recent years, the higher than assumed rate of return on investments distorts the fact that employer contributions have not kept pace with prior, current, and future estimated benefit costs. For the third consecutive year, employee contributions have exceeded employer contributions to the System Trust Fund. This fact underscores the need for the development and implementation of a systematic and rational funding plan for the System.

In an attempt to address the pension funding dilemma, the state legislature passed S.B.95 in August, 1989, which provided for a standardized funding method (projected unit credit) and a specified term for the amortization of prior unfunded pension costs (40 years, level percentage of payroll). There is a seven-year phase in period of the required employer contributions to attain the 40-year amortization level.

## ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

For fiscal years 1991 and 1990, a projected unit credit normal cost method is used. Under this method, the projected pension at retirement age is first calculated and the value thereof at the individual member's current or attained age is determined. The normal cost for the member for the current year is equal to the value so determined divided by the member's projected service at retirement. The normal cost for the plan for the year is the sum of the individual normal costs.

Actuarial gains and losses are recognized immediately in the unfunded actuarial liability of the System. For purposes of determining future employer contributions, however, the actuarial gains and losses are amortized over a 40-year period as a level percentage of payroll. The actuarial liability at any point in time is the value of the projected pensions at that time less the value of future normal costs.

For ancillary benefits for active members, in particular disability benefits, death and survivor benefits, termination benefits, and the post-retirement increments, the same procedure as outlined above is followed.

A description of the actuarial assumptions utilized for FY-91 and FY-90 follows:

**Dates of Adoption:** The Projected Unit Credit Normal Cost Method was adopted June 30, 1989; all other assumptions were adopted June 30, 1990.

**Mortality:** 1986 Projected Experience Table, a table based on experience underlying the 1971 Group Annuity Mortality Table, without margins, with a projection for mortality improvements to 1986. Five percent of deaths amongst active employees are assumed to be in the performance of their duty.

**Interest:** 8% per annum, compounded annually.

**Termination:** Illustrative rates follow. It is assumed that terminated employees will not be rehired.

Rate			Rate		
Age	Males	Females	Age	Males	Females
20	.188	.377	45	.038	.041
25	.126	.144	50	.032	.030
30	.085	.096	55	.030	.030
35	.062	.072	60	.030	.030
40	.047	.056	65	.030	.030

**Salary Increases:** Illustrative rates of increase per annum, compounded annually:

Age	Males & Females	Components		Age	Males & Females	Components	
		Merit	Inflation			Merit	Inflation
20	9.2%	4.7%	4.5%	45	6.7	2.2	4.5
25	8.7	4.2	4.5	50	6.2	1.7	4.5
30	8.2	3.7	4.5	55	5.7	1.2	4.5
35	7.7	3.2	4.5	60	5.2	.7	4.5
40	7.2	2.7	4.5	65	5.0	.5	4.5

**Retirement Rates:** Listed below are rates of retirement that vary by age:

Age	General Employees	Alternative Formula Employees*	Age	General Employees	Alternative Formula Employees*
50-54	-- %	20%	63-64	15 %	20%
55-59	10	20	65	40	40
60	25	20	66-69	25	30
61	15	20	70	100	100
62	20	20			

\*An additional 10% are assumed to retire in the year in which the employee completes 30 years of service. The rates apply only to employees who have fulfilled the service requirement necessary for retirement at any given age.

**Assets:** Assets available for benefits are valued at book value (cost).

**Expenses:** As estimated and advised by SERS staff, based on current expenses with an allowance for expected increases.

**Marital Status:** 85% of employees are assumed to be married.

**Spouse's Age:** The female spouse is assumed to be three years younger than the male spouse.

In addition to the above, other assumptions used include disability incidence, recovery from disability, mortality of disabled lives, remarriage rates, ages, and numbers of children and Social Security benefit levels.

# VALUATION RESULTS

Actuarial Liability (Reserves)	FY-91	FY-90
For Annuitants:		
For Benefit Recipients:		
Retirement Annuities	\$ 1,765,612,090	\$ 1,641,954,167
Survivor Annuities	230,250,907	214,764,228
Disability Annuities	72,392,278	65,636,773
Deferred:		
Retirement Annuities	1,178,359	1,135,115
Survivor Annuities	8,625,050	8,635,844
Total	\$ 2,078,058,684	\$ 1,932,126,127
For Inactive Members:		
Eligible for Deferred Vested Pension Benefits	64,654,680	61,844,342
Eligible for Return of Contributions Only	6,345,600	5,576,322
Total	\$ 71,000,280	\$ 67,420,664
For Active Members	2,800,821,248	2,538,527,403
Actuarial Present Value of Credited Projected Benefits	\$ 4,949,880,212	\$ 4,538,074,194
Assets, Book Value (Cost)	2,981,414,553	2,795,567,110
Unfunded Actuarial Present Value of Credited Projected Benefits	\$ 1,968,465,659	\$ 1,742,507,084

## \* GLOSSARY OF PENSION TERMS:

### 1. ACTUARIAL PRESENT VALUE OF CREDITED PROJECTED BENEFITS -

This value is defined in GASB Statement No. 5 as the pension benefit obligation (PBO), which is "a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date".

### 2. UNFUNDED ACTUARIAL PRESENT VALUE OF CREDITED PROJECTED BENEFITS -

This is the difference between the actuarial present value of credited projected benefits and the actuarial value of assets of the pension plan. It includes the unfunded prior and past service costs as well as normal costs not funded by the employer and actuarial gains and losses.

### 3. NORMAL COST -

This is the pension cost for service during the period as determined by an actuarial cost method.

### 4. PAST SERVICE COST -

At the inception of a plan, credit is often given to employees for services rendered before creation of the plan. Naturally, no contributions would have been made by the employer. Therefore, a cost has been incurred but not funded. This is called past service cost.

Generally accepted accounting principles provide that these costs should be deferred and recognized over future periods. The logic to this follows from the presumption that the employer granted these pension benefits for past service because some future value from better employee morale and higher productivity will be obtained. Thus, past service costs are deferred and recognized over the expected period of benefit. The convention has been to amortize past service costs over a period of 40 years, which is the approximate working lifetime of employees.

Past service costs can be amortized using a level dollar amount or a level percent of pay. Amortization payments are determined in the same way a mortgage payment is determined.

### 5. PRIOR SERVICE COSTS -

Pension plan benefits are often changed by amendments. When such a change gives credit for employee services rendered prior to the amendment, it gives rise to what are called prior service costs.

These are treated like past service costs, that is, the amount is deferred and amortized over future periods. As a practical matter, actuaries do not treat past and prior service costs separately but are instead handled as one value.

### 6. ACTUARIAL GAINS AND LOSSES -

Actual events usually differ from assumptions made by an actuary. The dollar effect of these variances from assumed values is an actuarial gain or loss. Actuarial gains and losses can also include the effects on the actuarial present value of benefits resulting from changes in actuarial assumptions.

Portfolio investment returns are another major source of actuarial gains and losses affecting pension expense (contribution) for the period. The discount rate was the expected return on pension plan investments. Therefore, if the portfolio's actual returns exceed the expected return (discount rate), an actuarial gain results and employer contributions are reduced. If returns are less than expected, there is an actuarial loss, and employer contributions are increased.

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### SHORT-TERM SOLVENCY TEST

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (primarily cash and investments) are compared with: 1) active member contributions on deposit; 2) the liabilities for future benefits to present retired lives; and 3) the liabilities for service already rendered by active members. In a system that has been following level percent of payroll financing, the liabilities for service already rendered by active members (liability 3) should be partially covered by the remainder of present assets. If the system continues using level cost financing, the funded portion of liability 3 will increase over time, although it is very rare for a system to have its liability 3 fully funded.

The State of Illinois, however, has generally funded the System based on benefit payout, a level which increases over time reflecting a larger work force and higher salary levels. Consequently, it can be expected that a percentage of liability 3 has been funded to date. (It should also be noted that the improvement reflected in recent years results primarily from the significant realized gains on the sale of investments previously described.)

#### Computed Actuarial Values (in thousands of dollars)

Fiscal Year	Member Contributions	Current Retirees and Beneficiaries	Active and Inactive Members, Employer Financed Portion	Net Assets Available For Benefits	Percentage of Actuarial Values Covered by Net Assets Available		
	(1)	(2)	(3)		(1)	(2)	(3)
1982	\$448,908	\$ 914,281	\$1,144,618	\$1,200,142	100.0%	82.2%	0.0%
1983	482,983	1,049,972	1,270,744	1,408,780	100.0	88.2	0.0
1984	517,008	1,150,634	1,414,552	1,581,326	100.0	92.5	0.0
1985	554,823	1,172,344	1,100,162	1,707,259	100.0	98.3	0.0
1986	597,438	1,287,644	1,228,253	1,974,095	100.0	100.0	7.2
1987	644,749	1,431,161	1,285,813	2,225,883	100.0	100.0	11.7
1988	699,190	1,546,828	1,395,561	2,381,806	100.0	100.0	9.7
1989	757,180	1,653,880	1,341,074	2,580,199	100.0	100.0	12.6
1990	823,025	1,932,126	1,782,923	2,795,567	100.0	100.0	2.3
1991	897,690	2,078,059	1,974,131	2,981,415	100.0	100.0	0.3

### ANALYSIS OF FUNDING

In an inflationary economy, the value of the dollar decreases. This environment results in employees' pay and retirement benefits increasing in dollar amounts resulting in unfunded accrued liabilities which increase in dollar amounts, all at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. The ratio of the unfunded accrued liabilities to active employee payroll provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to active member payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker. (It should be noted that the improvement reflected in the following schedule for recent years results primarily from significant realized gains on the sale of investments previously described.)

Fiscal Year	Total Actuarial Liability	Net Assets	(in thousands of dollars)		Member Payroll	Unfunded Actuarial Liability as a % of Member Payroll
			Net Assets as a % of Actuarial Liability	Total Unfunded Actuarial Liability		
1982	\$2,507,807	\$1,200,142	47.9%	\$1,307,665	\$1,334,262	98.0%
1983	2,803,699	1,408,780	50.2	1,394,919	1,378,735	101.0
1984	3,082,194	1,581,326	51.3	1,500,907	1,437,546	104.0
1985	2,827,329	1,707,259	60.4	1,120,070	1,569,532	71.0
1986	3,113,335	1,974,095	63.4	1,139,240	1,713,755	66.0
1987	3,361,723	2,225,883	66.2	1,135,840	1,825,196	62.0
1988	3,641,579	2,381,806	65.4	1,259,773	1,953,960	65.0
1989	3,752,134	2,580,199	68.8	1,171,935	2,106,121	56.0
1990	4,538,074	2,795,567	61.6	1,742,507	2,270,303	77.0
1991	4,949,880	2,981,415	60.2	1,968,465	2,461,352	80.0

## ANALYSIS OF FINANCIAL EXPERIENCE

Gain (Loss) in Actuarial Liability for Fiscal Years ending June 30, 1991 and 1990 are as follows:

	<u>1991</u>	<u>1990</u>
1. Actuarial Gains (Loss)		
(a) Age & Service Retirements	\$ (19,232,881)	\$ (32,243,743)
(b) Incidence of Disability	(889,305)	(1,634,929)
(c) In-Service Mortality	(5,776,927)	(3,983,963)
(d) Retiree Mortality	(1,867,193)	1,361,738
(e) Disabled Mortality	619,073	55,701
(f) Termination of Employment	(12,967,263)	(24,540,651)
(g) Salary Increases	(15,879,462)	(5,058,229)
(h) Investment Income	(43,333,979)	6,636,389
(i) Other	(4,811,500)	(9,671,908)
Total Actuarial Gain (Loss)	\$ (104,139,437)	\$ (69,079,595)
2. Contribution (Income)	\$ (93,869,035)	\$ (60,475,981)
3. Non-Recurring Items		
(a) Changes in Actuarial Assumptions	\$ -	\$(185,673,427)
(b) Change in Data Provided by SERS		
(i) Current Average compensation	-	(3,819,591)
(ii) Beneficiaries not previously reported	(10,206,953)	-
(c) Increases due to new legislation	(17,743,150)	(251,523,053)
Total Non-Recurring Gain (Loss)	\$ (27,950,103)	\$(441,016,071)
Total Financial Gain (Loss)	<u>\$ (225,958,575)</u>	<u>\$(570,571,647)</u>

## SCHEDULE OF ACTIVE MEMBER VALUATION DATA

<u>Valuation</u> <u>Date</u>	<u>Number</u>	<u>Annual</u> <u>Payroll</u>	<u>Annual</u> <u>Average Pay</u>	<u>% Increase</u> <u>In Average Pay</u>
6/30/82	76,904	\$1,334,262,000	\$17,350	9.6%
6/30/83	73,050	1,378,735,000	18,874	8.8
6/30/84	68,975	1,437,546,000	20,842	10.4
6/30/85	71,647	1,569,532,000	21,906	5.1
6/30/86	74,012	1,713,755,000	23,155	5.7
6/30/87	74,732	1,825,196,000	24,423	5.5
6/30/88	74,923	1,953,960,000	26,080	6.8
6/30/89	76,651	2,106,121,000	27,477	5.4
6/30/90	79,211	2,270,303,000	28,661	4.3
6/30/91	81,023	2,461,352,000	30,378	6.0

## SCHEDULE OF RETIRANTS ADDED TO AND REMOVED FROM ROLLS

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Removals)</u>	<u>Ending Balance</u>
1982	17,307	1,623	(683)	18,247
1983	18,247	1,764	(705)	19,306
1984	19,306	1,648	(797)	20,157
1985	20,157	1,639	(827)	20,969
1986	20,969	1,635	(833)	21,771
1987	21,771	1,629	(871)	22,529
1988	22,529	1,506	(997)	23,038
1989	23,038	1,532	(998)	23,572
1990	23,572	1,356	(1,064)	23,864
1991	23,864	1,428	(1,009)	24,283

## SCHEDULE OF SURVIVORS' ANNUITANTS ADDED TO AND REMOVED FROM ROLLS

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Removals)</u>	<u>Ending Balance</u>
1982	6,485	542	(164)	6,863
1983	6,863	516	(240)	7,139
1984	7,139	535	(303)	7,371
1985	7,371	568	(313)	7,626
1986	7,626	492	(295)	7,823
1987	7,823	514	(322)	8,015
1988	8,015	617	(336)	8,296
1989	8,296	578	(375)	8,499
1990	8,499	525	(395)	8,629
1991	8,629	576	(386)	8,819

## SCHEDULE OF DISABILITY RECIPIENTS ADDED TO AND REMOVED FROM ROLLS

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Removals)</u>	<u>Ending Balance</u>
1982	1,871	2,543	(2,526)	1,888
1983	1,888	2,532	(2,569)	1,851
1984	1,851	2,323	(2,375)	1,799
1985	1,799	2,182	(2,247)	1,734
1986	1,734	2,002	(2,033)	1,703
1987	1,703	1,800	(1,926)	1,577
1988	1,577	1,779	(1,820)	1,536
1989	1,536	1,713	(1,791)	1,458
1990	1,458	1,724	(1,681)	1,501
1991	1,501	2,027	(1,945)	1,583

**RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY**

	<u>FY-91</u>	<u>FY-90</u>
Unfunded Liability, Beginning of Fiscal Year	<u>\$ 1,742,507,084</u>	<u>\$1,171,935,437</u>
Contributions Due		
Interest on the Unfunded Liability	139,400,567	113,876,679
Total Normal Cost	72,166,831	56,553,248
Participants (includes Repayment of Refunds)	120,263,354	110,109,685
Interest on Normal Cost	7,549,129	6,538,268
Total Due	<u>\$ 339,379,881</u>	<u>\$ 287,077,880</u>
Contributions Paid		
Participants (includes Repayment of Refunds)	\$ 120,263,354	\$ 110,109,685
Employing State Agencies and Appropriations	115,979,568	107,938,094
Interest on Contributions	9,267,924	8,554,120
Total Paid	<u>\$ 245,510,846</u>	<u>\$ 226,601,899</u>
Increase in the Unfunded Liability	<u>\$ 93,869,035</u>	<u>\$ 60,475,981</u>
Actuarial (Gains) Losses:		
From Investment Return		
Greater (Less) Than 8%	\$ 43,333,979	\$ (6,636,399)
From Salary Increases		
Greater Than 6 1/2%	15,879,462	5,058,229
From Retirement at Other Than Expected Age	19,232,881	-
From Fewer Terminations Than Expected	12,967,263	-
From Other Sources	12,725,852	70,657,765
Total Actuarial (Gains) Losses	<u>\$ 104,139,437</u>	<u>\$ 69,079,595</u>
Non-Recurring Items:		
Plan Amendments	\$ 17,743,150	\$ 251,523,053
Changes in Actuarial Assumptions	-	185,673,427
Additional Data Provided by SERS:		
a) Current average compensation	-	3,819,591
b) Beneficiaries not previously reported	10,206,953	-
Total Non-Recurring Items	<u>\$ 27,950,103</u>	<u>441,016,071</u>
Total Increase (Decrease) in Actuarial Liability	<u>\$ 225,958,575</u>	<u>\$ 570,571,647</u>
Unfunded Liability, End of Fiscal Year	<u>\$ 1,968,465,659</u>	<u>\$1,742,507,084</u>

## **Investment Section**

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### **Investment Report**

### **Investment Portfolio Summary**

### **Analysis of Investment Performance**

## INVESTMENT REPORT

By state law the System's investment function is managed by the Illinois State Board of Investment (ISBI Board). The ISBI Board was created in 1969 to provide a means of centralizing the investment management function for public employee pension funds and retirement systems operating in the state. At the end of the fiscal year, in addition to the assets of the State Employees' Retirement System, the ISBI Board also managed the investment function for the Judges' and General Assembly Retirement Systems. As of June 30, 1991, total net assets under management valued at market, amounted to \$3.503 billion. Of the total assets under management, \$3.275 billion or 93.5% represented assets of the State Employees' Retirement System.

### Management Approach

The ISBI Board manages the Fund in accordance with the "prudent person rule" as adopted by the Illinois General Assembly in 1982. The ISBI Board has established a long-range investment policy which, in line with the prudent person rule, affirms that the Fund's objective is to provide the greatest possible long-term benefits through maximization of the total return of the Fund, within prudent risk parameters. Further, it is the ISBI Board's philosophy that the assets owned by the participating systems and managed by the ISBI Board are held for the exclusive purpose of providing benefits to the participants and annuitants of the respective retirement systems and their beneficiaries. In line with this philosophy, the ISBI Board from time to time evaluates its asset allocation which is considered by many to be the single most important factor in pension investment management. The three major asset classes are: bonds, equities and cash; with smaller positions being allocated to real estate, venture capital and other alternative investments.

### Total Fund Results

The Illinois State Board of Investment Commingled Fund (ISBI Fund) had a market value of \$3.503 billion as of the end of its fiscal year, June 30, 1991. The ISBI Fund had an increase in market value of \$219.2 million for the fiscal year, all of which resulted from net appreciation of assets and net realized yield on investments, as the member systems withdrew \$10 million on a net basis during the fiscal year.

Due to strong domestic equity and bond markets during the last six months of the fiscal year, the ISBI Fund produced a total rate of return of 7% for fiscal year 1991. As set forth in more detail below, domestic equities, fixed income and non-marketable securities achieved results well above the ISBI Fund's total rate of return, while international securities and real estate produced lower results.

The objective of the ISBI Fund is to allocate assets among the various investment categories in a manner that maximizes return and minimizes risk in the security markets. Focusing on that objective, the ISBI Board has engaged a consulting firm to make a comprehensive and quantitative review of the ISBI Fund's portfolio mix, including conformance to pre-determined asset allocation policies and investment guidelines, as well as performance benchmarks for its external managers. It is anticipated that this project will be completed before the end of calendar year 1991 and the ISBI Board intends to then review and possibly adopt a new three to five year investment strategy.

Over the nine year period since the adoption of the prudent person legislation, the ISBI Fund has produced a compounded annual rate of return, net of expenses and charges, of 13.2% and its net assets have increased by \$2.4 billion. The last three and five year average annual returns were 9.9% and 8.1%, respectively.

### Fixed Income

Substantially all of the investments in the fixed income component are managed internally except for approximately \$264.6 million managed by external high yield and convertible debt managers. Internally managed fixed income investments produced a 10.4% rate of return which is slightly better than the benchmark. External managers produced net rates of return approximating their benchmark indices.

Comparative average annual rates of return for the composite of the funds allocated to the fixed income managers and the benchmark market indices are set forth below:

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
ISBI	9.0%	8.9%	8.4%
Shearson Lehman G/C	10.2%	9.9%	8.3%
Shearson Lehman Aggregate	10.1%	10.2%	8.8%

### Equity

The ISBI Board's stated policy of having all equity investments managed externally has been implemented. As of June 30, 1991, funds under management by domestic, global, and international equity managers totaled \$1,273 million, \$207 million, and \$87 million, respectively.

All three equity categories performed better than their market benchmarks with domestic equities substantially outperforming global and international equities during the fiscal year. Domestic equity managers produced a 9.9% rate of return for the fiscal year, as compared to 7.4% for the S & P 500; global managers had a loss of .3%, as compared to a 4% loss for the Morgan Stanley Capital International World Index (MSCI); and international managers had a loss of 10.9%, as compared to an 11.2% loss for the Morgan Stanley Capital International Perspective Index for Europe, Australia, and the Far East (EAFE) for the fiscal year.

The composite average annual rates of return for investments managed by all of the equity managers, as compared to the S & P 500, are set forth below:

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
ISBI	7.3%	11.5%	8.6%
S&P 500	7.4%	14.7%	11.9%

### Real Estate

The combined real estate portfolio is well diversified by property type and substantially non-leveraged. Nonetheless, write-downs on appraised values exceeded cash returns to the ISBI Fund, thereby resulting in a loss of 1.4% for fiscal year 1991. All of the ISBI Fund's investments in real estate are passive and are represented by interests in limited partnerships, trusts, and other forms of pooled investments. The allocation according to property type is 32% retail, 23% office, 12% apartment, 6% warehouse and research and development, with the remaining 27% in mixed use, land and miscellaneous. The ISBI Board made no new commitments to the real estate sector during fiscal years 1990 and 1991.

Average annual returns for the combined real estate portfolio compared to the benchmark market index for unleveraged institutional grade property returns are as follows:

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
ISBI	(1.4)%	3.6%	4.9%
NCREIF	(1.1)%	2.0%	3.7%

### Non-Marketable Securities

The total rate of return for this category of investment was an excellent 22.7% for the fiscal year. A substantial portion of the return was attributable to one leveraged buyout external manager's performance and the fact that initial public offerings were effected by a number of portfolio companies. This category of investments consists primarily of passive interests in limited partnerships and other entities that have pooled financial resources and engage in leveraged buyouts, venture capital and other private placement activities. As of June 30, 1991, the market value of the non-marketable securities portfolio amounts to 5.2% of the total ISBI Fund.

## Investment Section

Average annual returns for additional time periods for this category are set forth below:

	1 Year	3 Years	5 Years
ISBI	22.7%	14.8%	11.1%

### Management Expenses

Total operating expenses, including fees to external managers, for the fiscal year were \$11,486,438, as compared to \$9,915,278 for the previous fiscal year. The expense ratio (expenses divided by assets under management) was .33% as compared to .31% last fiscal year. The State Employees' Retirement System's share of total operating expenses amounted to \$10,729,245.

### Additional Information

For additional information regarding the System's investment function, please refer to the Annual Report of the Illinois State Board of Investment, June 30, 1991. A copy of the report can be obtained from the Board at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

### INVESTMENT PORTFOLIO SUMMARY

	June 30, 1991		June 30, 1990	
	Market Value	Percentage	Market Value	Percentage
Fixed Income	\$ 1,375,015,021	39.3%	\$ 1,280,391,270	39.0%
Equities	1,473,327,061	42.1%	1,415,536,152	43.1%
Real Estate	341,066,237	9.7%	338,205,156	10.3%
Non-Marketable	183,670,238	5.2%	157,978,812	4.8%
Cash equivalents**	129,935,529	3.7%	91,665,687	2.8%
Net assets at market value	<u>\$ 3,503,014,086 *</u>	<u>100.0%</u>	<u>\$ 3,283,777,077 *</u>	<u>100.0%</u>
Net assets, at cost	<u>\$ 3,153,895,617 *</u>		<u>\$ 2,971,557,481 *</u>	

\* These amounts represent the total assets under management of the Illinois State Board of Investment. The assets of the State Employees' Retirement System at market and cost for fiscal year 1991 were \$3,275,201,134 and \$2,948,573,763, respectively. For fiscal year 1990 the market and cost values were \$3,066,984,813 and \$2,775,885,256, respectively.

\*\* Cash equivalents includes other assets less liabilities.

### ANALYSIS OF INVESTMENT PERFORMANCE

	1991	1990	1989	1988	1987
Total Return* - Past 3 years		9.9%			
Total Return* - Past 5 years			8.1%		
Total Return* - year by year	7.0%	8.0%	14.3%	2.5%	8.8%
Actuarial Assumed Rate of Return			8.0%		
Average Net Income Yield*	5.2%	5.2%	5.5%	5.6%	5.3%

#### Comparative rates of return on fixed income securities

Total fixed income - ISBI	9.0%	5.9%	12.0%	9.3%	5.7%
Comparison index:					
Shearson Lehman Government/ Corporate Bond Index	10.2%	7.1%	12.3%	7.5%	4.7%

#### Comparative rates of return on equities

Total equities - ISBI	7.3%	10.5%	17.0%	(4.6%)	14.4%
Comparison index:					
S&P 500	7.4%	16.4%	20.6%	(6.9%)	25.1%

\* Total return is the combined effect of income earned and market appreciation (depreciation). Average net income yield is the income earned for the year divided by the average market value of assets employed.

**A Comparison of Total Members, Net Assets, and Total Actuarial  
Liabilities for the Past 10 Years**

**Balance Sheet Assets**

**Balance Sheet Liabilities**

**Revenues by Source**

**Expenses by Type**

**Benefit Expenses by Type**

**Total Membership**

**Active Membership**

**Number of Recurring Benefit Payments**

**Termination Refunds - Number/Amount**

**Retirement Annuities - Average Monthly Benefit For Current Year  
Retirees by Type**

**Retirement Annuities - Current Age of Active Recipients**

**Retirement Annuities - Average Service (in months) For Current  
Year Retirees at Effective Date of Benefit**

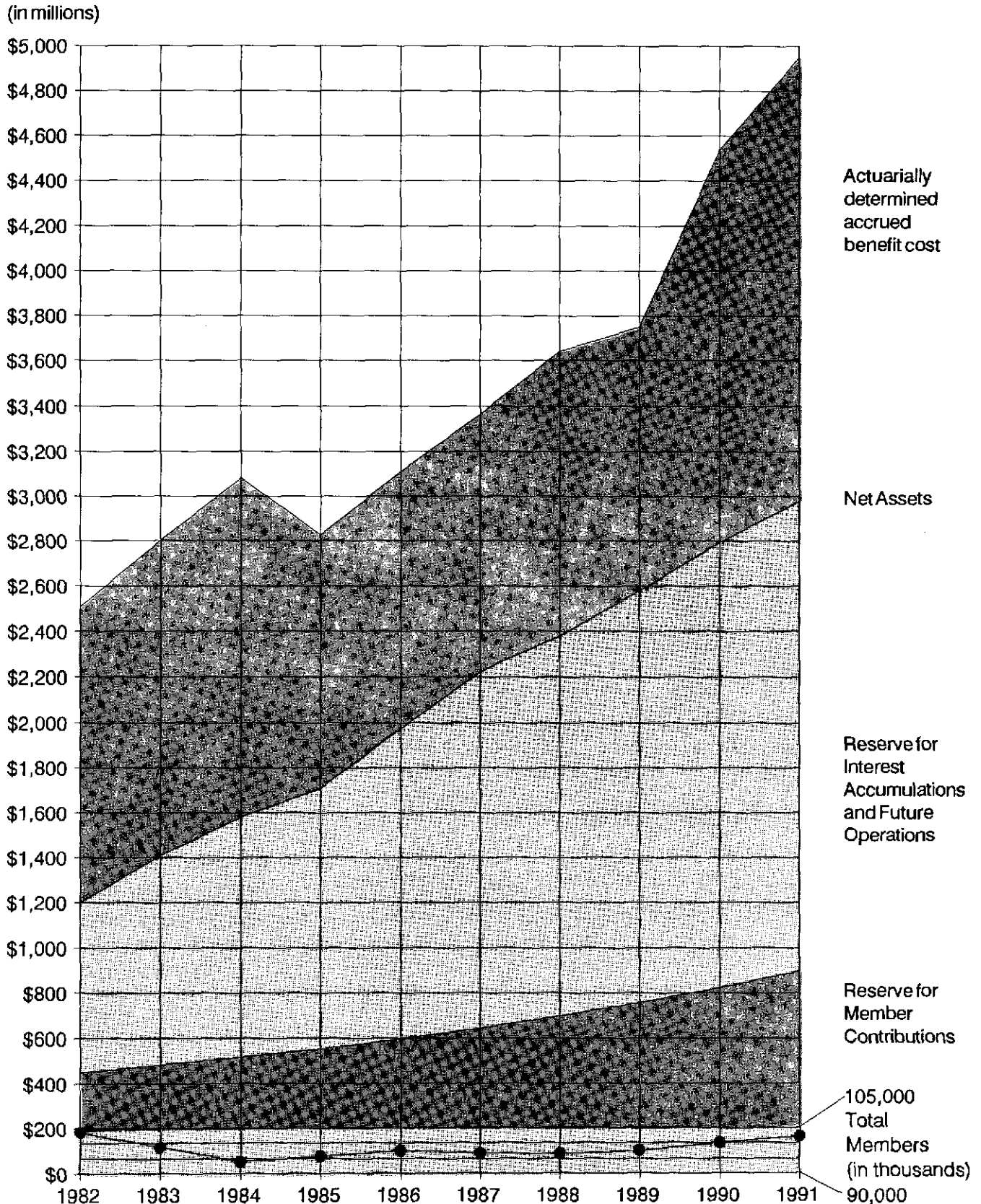
**Annuitants by Benefit Range (Monthly)**

**Widows' and Survivors' by Benefit Range (Monthly)**

**Occupational and Non-Occupational (Incl. Temp.) Disabilities by  
Benefit Range (Monthly)**

**Active Retirees by State**

# A comparison of total members, net assets and total actuarial liabilities for the past ten years.



**BALANCE SHEET ASSETS - SYSTEM TRUST FUND**

FY Ended June 30	Cash	Receivables	Investments At Cost	Investment Adjustment	Fixed Assets, Net of Accumulated Depreciation	Total
1982	\$ 7,494,162	\$ 6,390,869	\$1,236,672,447	\$(48,013,214)*		\$1,202,544,264
1983	7,219,474	7,984,364	1,395,936,136			1,411,139,974
1984	9,100,232	9,923,500	1,564,277,185		\$ 189,494	1,583,490,411
1985	11,216,376	9,799,827	1,688,252,032		127,268	1,709,395,503
1986	7,618,809	8,931,617	1,959,702,313		124,916	1,976,377,655
1987	5,977,771	10,189,788	2,211,906,317		168,785	2,228,242,661
1988	9,893,839	6,931,093	2,367,063,722		823,484	2,384,712,138
1989	9,730,385	7,047,705	2,565,152,803		1,103,973	2,583,034,866
1990	11,187,478	8,072,524	2,775,885,256		4,340,351	2,799,485,609
1991	18,682,979	12,050,151	2,949,573,783		4,436,451	2,984,743,364

\* Allowance for accumulated net realized loss distributed by the Illinois State Board of Investment. Since 1982 net realized gains and losses have been distributed annually.

**BALANCE SHEET LIABILITIES - SYSTEM TRUST FUND**

FY Ended June 30	Accounts Payable	Reserve For Member Contributions	Reserve For Interest Accumulations and Future Operations	Total
1982	\$2,402,469	\$448,908,264	\$ 751,233,531	\$1,202,544,264
1983	2,359,780	482,983,107	925,797,087	1,411,139,974
1984	2,164,123	517,008,266	1,064,318,022	1,583,490,411
1985	2,136,041	554,822,852	1,152,436,610	1,709,395,503
1986	2,282,972	597,438,053	1,376,656,630	1,976,377,655
1987	2,359,515	644,749,034	1,581,134,112	2,228,242,661
1988	2,906,072	699,189,621	1,682,616,445	2,384,712,138
1989	2,836,020	757,180,186	1,823,018,660	2,583,034,866
1990	3,918,499	823,025,513	1,972,541,597	2,799,485,609
1991	3,328,811	897,689,637	2,083,724,916	2,984,743,364

**REVENUES BY SOURCE - SYSTEM TRUST FUND\***

FY Ended June 30	Member Contributions	State Contributions	Investment Income	Total
1982	\$ 69,300,949	\$ 61,500,375	\$101,697,502	\$232,498,826
1983	72,371,246	71,846,403	192,573,257	336,790,906
1984	73,442,196	86,464,279	150,170,315	310,076,790
1985	77,830,806	94,456,693	101,754,931	274,042,430
1986	84,563,536	102,213,693	240,235,534	427,012,763
1987	90,096,279	109,559,940	226,929,603	426,585,822
1988	95,928,239	99,990,922	148,802,057	344,721,218
1989	101,805,417	98,471,993	199,452,398	399,729,808
1990	110,109,685	107,938,094	213,139,724	431,187,503
1991	120,263,354	115,979,568	180,520,373	416,763,295

\*These amounts do not include the General Revenue Fund appropriation for the administrative expenses of the Contribution Fund.

## EXPENSES BY TYPE - SYSTEM TRUST FUND\*

FY Ended June 30	Benefits	Contribution Refunds (Incl. Transfers)	Administrative Expenses	Other Expenses**	Total
1982	\$100,453,675	\$13,942,805	\$2,245,727	\$(2,480,124)	\$114,162,083
1983	111,852,846	14,009,169	2,290,492		128,152,507
1984	120,996,071	14,145,496	2,428,623		137,570,190
1985	132,316,478	13,240,326	2,552,452		148,109,256
1986	143,548,518	13,780,843	2,848,181		160,177,542
1987	159,614,328	12,182,099	3,000,932		174,797,359
1988	173,644,549	11,983,814	3,169,935		188,798,298
1989	185,354,303	12,602,555	3,380,170		201,337,028
1990	199,606,912	12,325,179	3,887,148		215,819,239
1991	215,290,386	11,851,930	3,773,536		230,915,852

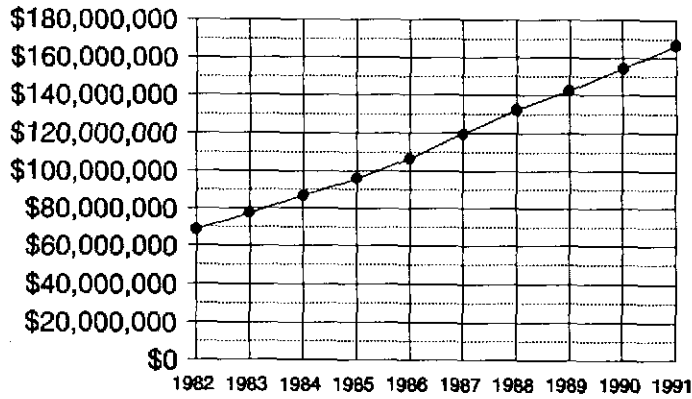
\* These amounts do not include the General Revenue Fund Appropriations for the administrative expenses of the Contribution Fund.

\*\* Net realized loss or (gain) on investments undistributed by the Illinois State Board of Investment. Accumulated net losses from 1970 through 1979 amounted to \$42,998,251. Since 1982 realized losses or gains have been distributed annually.

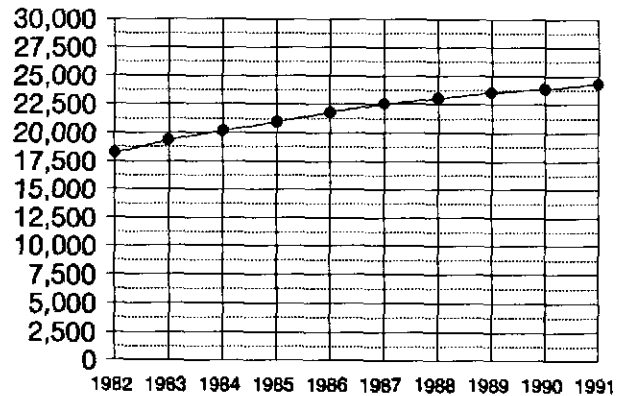
## BENEFIT EXPENSES BY TYPE - SYSTEM TRUST FUND

FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability Benefits	Lump Sum Death Benefits	Total
1982	\$ 68,602,104	\$14,236,031	\$13,163,602	\$4,451,938	\$100,453,675
1983	77,472,708	15,253,035	14,101,575	5,025,528	111,852,846
1984	86,651,697	16,114,837	13,985,426	4,244,111	120,996,071
1985	95,965,469	17,086,453	14,164,732	5,099,824	132,316,478
1986	106,475,314	17,856,166	14,452,304	4,764,734	143,548,518
1987	119,758,023	18,955,079	14,521,296	6,379,930	159,614,328
1988	132,265,411	20,319,659	14,660,199	6,399,280	173,644,549
1989	142,706,550	20,987,489	14,379,147	7,281,117	185,354,303
1990	154,368,901	22,014,615	15,313,434	7,909,962	199,606,912
1991	166,360,086	23,592,609	16,655,172	8,682,519	215,290,386

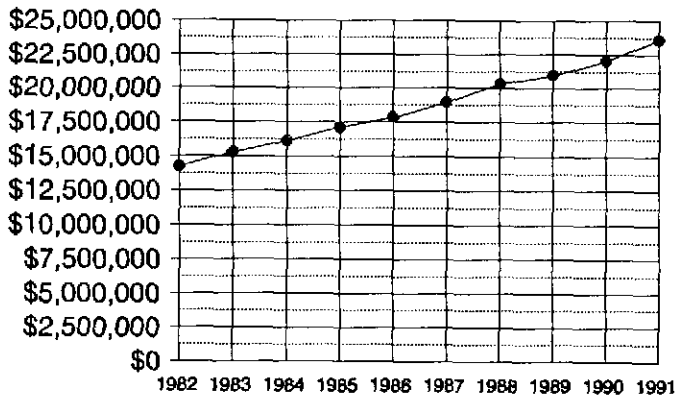
Retirement Annuities



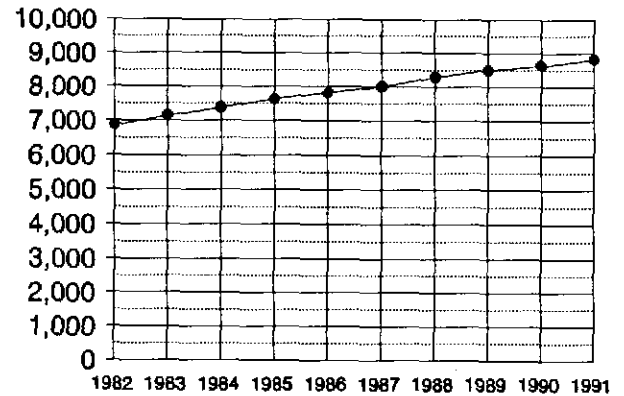
Number of Retirement Annuities



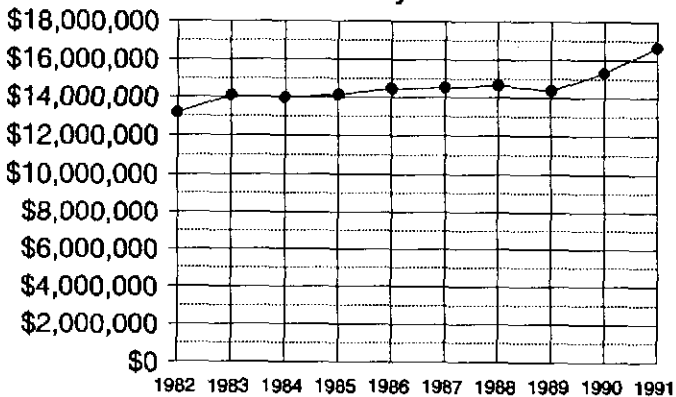
Survivors' Annuities



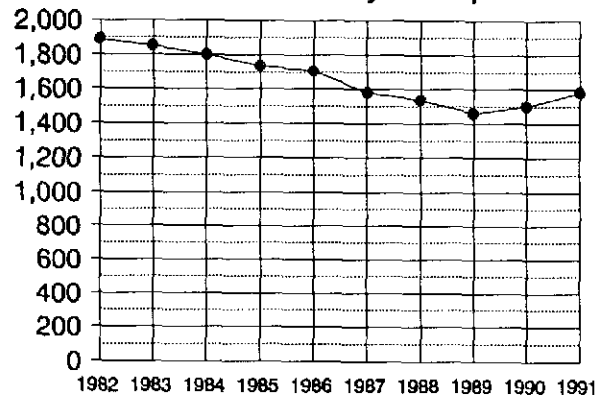
Number of Survivors' Annuities



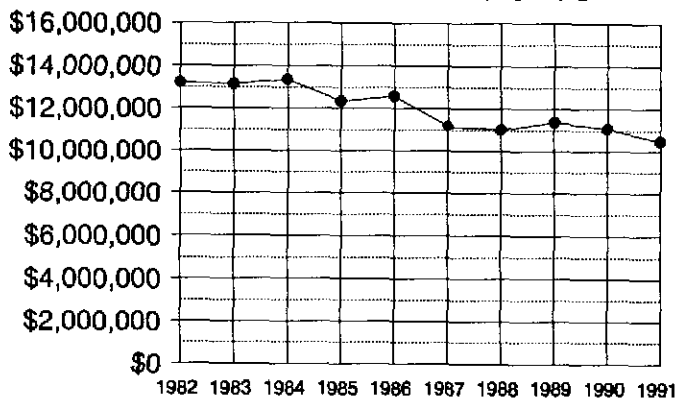
Disability Benefits



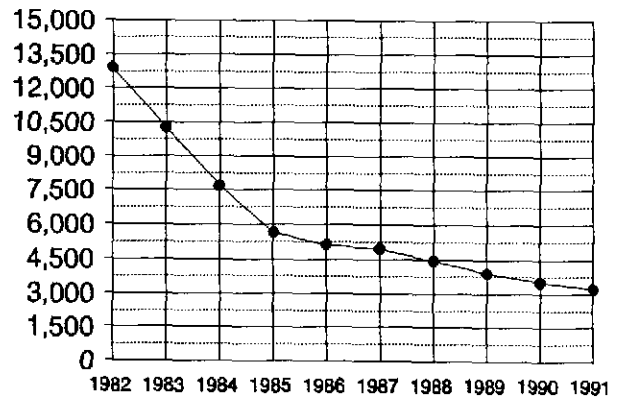
Number of Disability Recipients



Termination Refunds



Number of Refunds



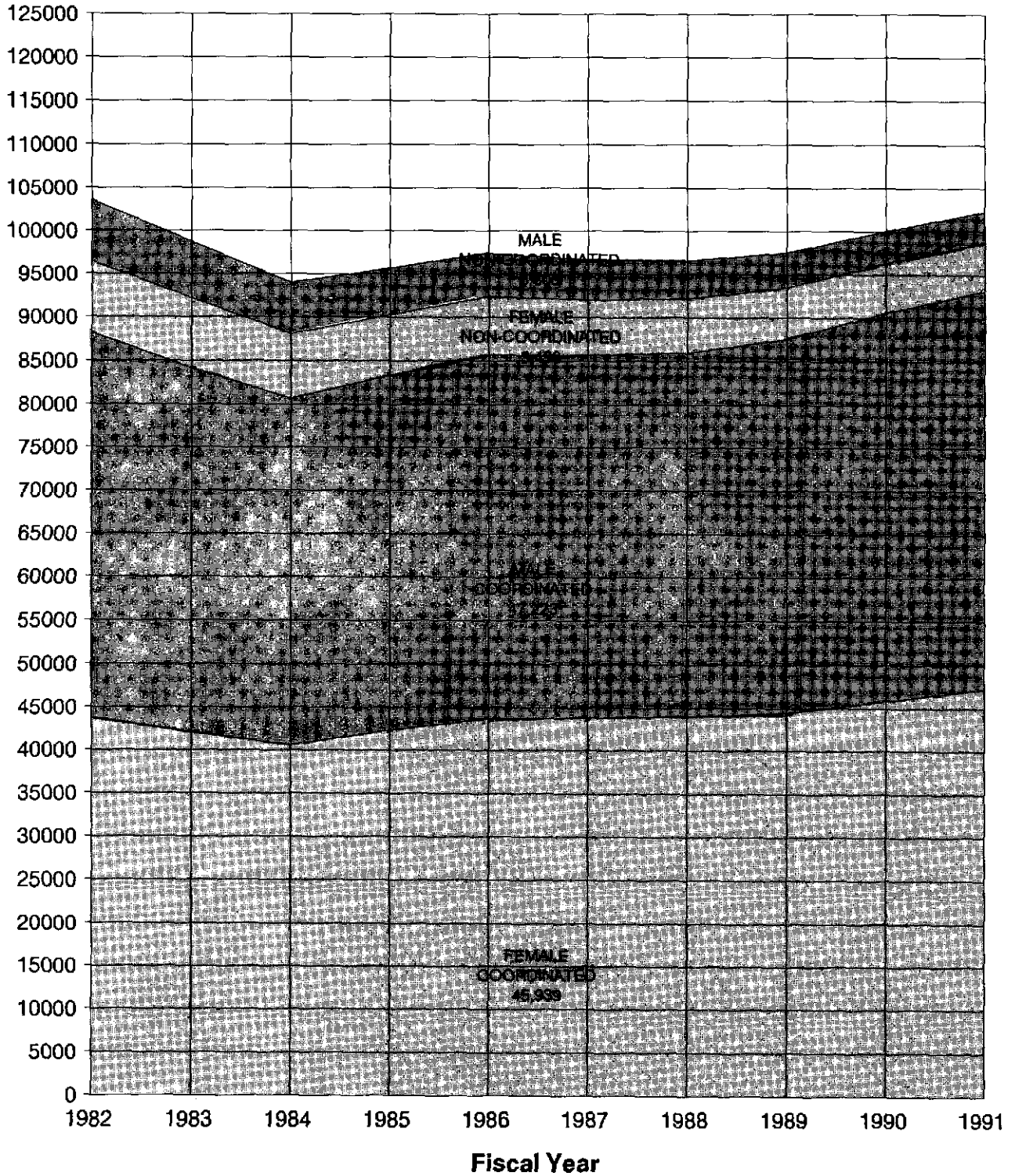
## TOTAL MEMBERSHIP - COORDINATED/NONCOORDINATED

FY Ended June 30	COORDINATED MEMBERS			NONCOORDINATED MEMBERS			Total Male Members	Total Female Members	Total Members
	Male	Female	Total	Male	Female	Total			
1982	43,764	44,376	88,140	8,315	7,096	15,411	52,079	51,472	103,551
1983	42,009	42,122	84,131	8,024	6,585	14,609	50,033	48,707	98,740
1984	40,547	40,136	80,683	7,338	5,915	13,253	47,885	46,051	93,936
1985	42,349	40,966	83,315	6,977	5,415	12,392	49,326	46,381	95,707
1986	43,762	41,935	85,697	6,716	4,997	11,713	50,478	46,932	97,410
1987	43,865	41,736	85,601	6,416	4,631	11,047	50,281	46,367	96,648
1988	43,988	41,914	85,902	6,257	4,342	10,599	50,245	46,256	96,501
1989	44,449	43,086	87,535	5,947	4,027	9,974	50,396	47,113	97,509
1990	45,885	44,683	90,568	5,750	3,741	9,491	51,635	48,424	100,059
1991	47,223	45,939	93,162	5,608	3,499	9,107	52,831	49,438	102,269

## ACTIVE MEMBERSHIP - COORDINATED/NONCOORDINATED

FY Ended June 30	COORDINATED MEMBERS			NONCOORDINATED MEMBERS			Total Male Members	Total Female Members	Total Active Members	Annual Earnings Reported
	Male	Female	Total	Male	Female	Total				
1982	29,801	33,100	62,901	7,517	6,486	14,003	37,318	39,586	76,904	\$1,334,262,000
1983	28,868	31,229	60,097	7,037	5,916	12,953	35,905	37,145	73,050	1,378,735,000
1984	27,457	29,488	56,945	6,636	5,394	12,030	34,093	34,882	68,975	1,437,546,000
1985	29,763	30,583	60,346	6,349	4,952	11,301	36,112	35,535	71,647	1,569,532,000
1986	31,486	31,832	63,318	6,135	4,559	10,694	37,621	36,391	74,012	1,713,755,000
1987	32,294	32,270	64,564	5,924	4,244	10,168	38,218	36,514	74,732	1,825,196,000
1988	32,567	32,570	65,137	5,804	3,982	9,786	38,371	36,552	74,923	1,953,960,000
1989	33,342	34,047	67,389	5,557	3,705	9,262	38,899	37,752	76,651	2,106,121,000
1990	34,818	35,476	70,294	5,433	3,484	8,917	40,251	38,960	79,211	2,270,303,000
1991	35,984	36,461	72,445	5,325	3,253	8,578	41,309	39,714	81,023	2,461,352,000

# Total membership - Coordinated/Noncoordinated



## NUMBER OF RECURRING BENEFIT PAYMENTS - SYSTEM TRUST FUND

FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability* Benefits	Total
1982 .....	18,247	6,863	1,888	26,998
1983 .....	19,306	7,139	1,851	28,296
1984 .....	20,157	7,371	1,799	29,327
1985 .....	20,969	7,626	1,734	30,329
1986 .....	21,771	7,823	1,703	31,297
1987 .....	22,529	8,015	1,577	32,121
1988 .....	23,038	8,296	1,536	32,870
1989 .....	23,572	8,499	1,458	33,529
1990 .....	23,864	8,629	1,501	33,994
1991 .....	24,283	8,819	1,583	34,685

\*Includes individuals receiving total temporary disability payments under the Workers' Compensation Act.

## TERMINATION REFUNDS - NUMBER/AMOUNT - SYSTEM TRUST FUND

1982 .....	12,893	\$13,212,484
1983 .....	10,252	13,149,550
1984 .....	7,664	13,349,332
1985 .....	5,638	12,339,874
1986 .....	5,118	12,587,868
1987 .....	4,930	11,192,197
1988 .....	4,431	11,015,216
1989 .....	3,879	11,393,289
1990 .....	3,509	11,088,659
1991 .....	3,235	10,488,713

**RETIREMENT ANNUITIES - SYSTEM TRUST FUND****Average Monthly Benefit For Current Year Retirees By Type**

Fiscal Year Ending June 30

	1991	1990	1989	1988	1987
Not Coordinated with Social Security	\$ 1,237.79	\$ 1,153.58	\$ 975.24	\$ 924.09	\$ 830.86
Coordinated with Social Security	404.26	411.07	371.83	347.06	325.96
Alternative Formula	2,821.34	2,903.27	2,450.98	2,340.52	2,134.07
Dept. of Corrections - Special Formula - Not Coordinated with Social Security	1,640.16	1,469.27	1,393.57	1,370.91	1,126.09
Dept. of Corrections - Special Formula Coordinated with Social Security	993.56	968.73	863.82	891.39	993.61
Court Reporters - Not Coordinated with Social Security	1,440.34	1,949.44	-	-	-
Court Reporters - Coordinated with Social Security	328.58	705.94	-	-	-
Total Average	<u>\$ 784.48</u>	<u>\$ 802.07</u>	<u>\$ 672.93</u>	<u>\$ 670.38</u>	<u>\$ 645.71</u>

**RETIREMENT ANNUITIES - SYSTEM TRUST FUND****Current Age of Active Recipients**

	Fiscal Year Ending June 30				
Age	1991	1990	1989	1988	1987
Under 51	8	6	1	2	6
51-55	159	168	196	196	189
56-60	792	770	735	700	714
61-65	3,495	3,517	3,697	3,684	3,623
66-70	5,865	5,808	5,705	5,628	5,522
71-75	5,460	5,485	4,464	5,478	5,508
76-80	4,495	4,325	5,206	4,018	3,839
81-85	2,516	2,391	2,242	2,095	1,974
86-89	934	899	852	805	754
Over 89	559	495	474	432	400
Total	<u>24,283</u>	<u>23,864</u>	<u>23,572</u>	<u>23,038</u>	<u>22,529</u>
Average age	<u>72.70</u>	<u>72.55</u>	<u>72.35</u>	<u>72.19</u>	<u>72.05</u>

**RETIREMENT ANNUITIES - SYSTEM TRUST FUND****Average Service (in months) for Current Year Retirees at Effective Date of Benefit**

Fiscal Year Ending June 30

	1991	1990	1989	1988	1987
Not Coordinated with Social Security	344.13	339.78	319.85	316.25	306.72
Coordinated with Social Security	209.78	209.45	205.34	198.45	194.84
Alternative Formula	341.68	346.42	333.31	340.07	342.90
Dept. of Corrections - Special Formula - Not Coordinated with Social Security	324.05	327.02	326.29	323.25	296.43
Dept. of Corrections - Special Formula - Coordinated with Social Security	278.35	261.29	275.29	272.34	261.44
Court Reporters - Not Coordinated with Social Security	309.05	389.80	-	-	-
Court Reporters - Coordinated with Social Security	172.00	199.37	-	-	-
Total Average	<u>259.32</u>	<u>260.82</u>	<u>252.01</u>	<u>251.41</u>	<u>248.60</u>

## Annuitants by Benefit Range (Monthly) June 30, 1991

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
\$ 1-100	1,146	1,146	4.7	4.7
101-200	4,783	5,929	19.7	24.4
201-300	4,049	9,978	16.7	41.1
301-400	3,000	12,978	12.4	53.5
401-500	2,164	15,142	8.9	62.4
501-600	1,581	16,723	6.5	68.9
601-700	1,208	17,931	5.0	73.9
701-800	915	18,846	3.8	77.7
801-900	762	19,608	3.1	80.8
901-1000	608	20,216	2.5	83.3
1001-1100	564	20,780	2.3	85.6
1101-1200	437	21,217	1.8	87.4
1201-1300	375	21,592	1.5	88.9
1301-1400	305	21,897	1.3	90.2
1401-1500	316	22,213	1.3	91.5
1501-1600	296	22,509	1.2	92.7
1601-1700	227	22,736	0.9	93.6
1701-1800	201	22,937	0.8	94.4
1801-1900	194	23,131	0.8	95.2
1901-2000	149	23,280	0.6	95.8
2001-2100	135	23,415	0.6	96.4
2101-2200	99	23,514	0.4	96.8
2201-4940	769	24,283	3.2	100.0

## Widow's and Survivors' by Benefit Range (Monthly) June 30, 1991

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
\$ 1-100	2,546	2,546	28.9	28.9
101-200	2,325	4,871	26.4	55.3
201-300	1,795	6,666	20.4	75.7
301-400	1,002	7,668	11.4	87.1
401-500	610	8,278	6.9	94.0
501-600	181	8,459	2.1	96.1
601-700	141	8,600	1.6	97.7
701-800	87	8,687	1.0	98.7
801-900	53	8,740	0.6	99.3
901-1000	33	8,773	0.4	99.7
1001-1100	15	8,788	0.2	99.9
1101-1200	13	8,801	0.1	100.0
1201-1300	9	8,810	0.0	100.0
1301-1400	2	8,812	0.0	100.0
1401-1500	3	8,815	0.0	100.0
1501-1600	1	8,816	0.0	100.0
1601-1700	2	8,818	0.0	100.0
1701-1800	0	8,818	0.0	100.0
1801-1900	0	8,818	0.0	100.0
1901-2000	0	8,818	0.0	100.0
2001-2100	1	8,819	0.0	100.0
2101-2200	0	8,819	0.0	100.0
2201-4940	0	8,819	0.0	100.0

## Occupational and Non-Occupational (Incl. Temp) Disabilities by Benefit Range (Monthly) June 30, 1991

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
\$ 1-100	28	28	1.8	1.8
101-200	133	161	8.4	10.2
201-300	239	400	15.1	25.3
301-400	193	593	12.2	37.5
401-500	143	736	9.0	46.5
501-600	94	830	5.9	52.4
601-700	89	919	5.6	58.0
701-800	112	1,031	7.1	65.1
801-900	116	1,147	7.3	72.4
901-1000	88	1,235	5.6	78.0
1001-1100	75	1,310	4.7	82.7
1101-1200	84	1,394	5.3	88.0
1201-1300	57	1,451	3.6	91.6
1301-1400	40	1,491	2.5	94.1
1401-1500	27	1,518	1.7	95.8
1501-1600	26	1,544	1.6	97.4
1601-1700	11	1,555	0.7	98.1
1701-1800	8	1,563	0.5	98.6
1801-1900	4	1,567	0.3	98.9
1901-2000	5	1,572	0.3	99.2
2001-2100	3	1,575	0.2	99.4
2101-2200	0	1,575	0.0	99.4
2201-4940	8	1,583	0.6	100.0

## Active Retirees by State



## **Plan Summary and Legislative Section**

### **Plan Summary**

### **Legislative Section**

## **SUMMARY OF RETIREMENT SYSTEM PLAN (As of June 30, 1991)**

### **1. PURPOSE**

The State Employees' Retirement System of Illinois, a state agency, provides an orderly means whereby aged or disabled employees may be retired from active service without prejudice or hardship and enables the employees to accumulate reserves for old age, disability, death and termination of employment.

### **2. ADMINISTRATION**

Responsibility for the operation of the System and the direction of its policies is vested in a Board of Trustees consisting of seven members. The administration of the detailed affairs of the System is the responsibility of the Executive Secretary who is appointed by the Board of Trustees. Administrative policies and procedures are designed to ensure an accurate accounting of funds of the System and prompt payment of claims for benefits within the applicable statute.

### **3. EMPLOYEE MEMBERSHIP**

All persons entering state service become members of the System after serving a six-month qualifying period unless their position is subject to membership in another state supported system. Any enrollee of the Young Adult Conservation Corps is excluded from membership. Employees appointed by the Governor and requiring confirmation by the State of Illinois Senate may elect to become members of the System.

### **4. MEMBERS CONTRIBUTIONS**

Members are required to contribute a percentage of salary as their share of meeting the cost of the various benefits. Contribution rates are as shown below:

- A. Members Coordinated with Social Security - 4% of salary
- B. Members Without Social Security - 8% of salary
- C. State Police, Special Agents, Firefighters, Secretary of State Investigators, Conservation Police Officers, Department of Revenue Investigators, Central Management Services Security Police and Mental Health Police Officers - 9 1/2% of salary
- D. Full Time Security Employees of the Department of Corrections; Air Pilots -
  - (1) Coordinated with Social Security - 5 1/2% of salary
  - (2) Without Social Security - 9 1/2% of salary

Members coordinated with social security also pay the current social security tax rate.

### **5. RETIREMENT PENSION**

#### **A. Qualification of Member**

Upon termination of state service, a member is eligible for a pension at age 60 with at least eight years of pension credit; at any age with 35 or more years of credit; between ages 55 and 60 with 30 to 35 years of credit with the pension reduced by one-half of 1% for each month the member is under age 60. Employees of the Department of Corrections security employees and the Department of Mental Health and Developmental Disabilities - Chester, Illinois facility employees who are not eligible for the Alternative Formula must have at least 20 years of membership service to qualify for special pension formulas which will apply only to the service earned while in a security position.

Members in Alternative Formula positions are eligible at age 50 with at least 25 years of eligible creditable service or at age 55 with at least 20 years of eligible creditable service in such a position.

#### **B. Amount of Pension**

The pension is based on the member's final average compensation and the number of years of pension credit that have been established.

The pension formula reflects a graded or progressive method according to length of service as follows:

Years of Credit	Employees Under Social Security	Employees Not Under Social Security	Full Time Security Employees- Dept. of Corrections*		Alternative Formula, i.e. Police and other positions		Court Reporter	
			Under S.S./Not Under S.S.	Under S.S./Not Under S.S.	Under S.S./Not Under S.S.	Under S.S./Not Under S.S.	Under S.S./Not Under S.S.	Under S.S./Not Under S.S.
Each of the first 10 years of credit	1.0%	1.67%	1.67%	1.9%	1.67%	2.25%	1.5%	2.2%
Each of the second 10 years of credit	1.1%	1.9%	1.9%	2.1%	1.9%	2.5%	1.5%	2.2%
Each of the third 10 years of credit	1.3%	2.1%	2.1%	2.25%	2.1%	2.75%	1.5%	2.2%
Each year above 30 years	1.5%	2.3%	2.3%	2.5%	2.3%	2.75%	1.5%	2.2%

\*Who are not eligible for the Alternative Formula. The Alternative Formula for the Department of Corrections employees will be fully phased in by 1991. Also included in this group are Department of Mental Health - Chester, Illinois security employees.

The maximum pension payable is 75% of final average compensation. The minimum pension payable is \$7.50 for each year of covered employment and \$15.00 for each year of noncovered employment.

## C. Optional Forms of Payment

**Reversionary Annuity** - A member may elect to receive a smaller pension during his lifetime in order to provide a spouse or a designated dependent with a lifetime income. That payment would be in addition to any other benefit payable by the System.

**Level Income** - A member who contributes to social security as a state employee may elect to have his pension payments increased before age 62/65 and reduced after that age to provide a uniform pension income throughout his retired life. To be eligible for this election the member must have established eligibility for a social security pension.

## D. Annual Increases in Pension

Post retirement increases of 3% are granted to members effective each January 1 after receipt of benefits for one full year.

# 6. SURVIVORS' ANNUITY

## A. Qualification of Survivor

If death occurs while in state employment, the member must have established at least 18 months of pension credit. If death occurs after termination of state service and the member was not receiving a retirement pension, the member must have established at least eight years of pension credit.

An eligible spouse qualifies at age 50 or at any age if there is in the care of the spouse any unmarried children of the member under age 18 or over 18 if mentally or physically disabled; unmarried children under age 18 if no spouse survives; dependent parents at age 50 if neither an eligible spouse nor eligible children survive the member.

A spouse that is the sole nominated beneficiary and sole survivor may elect other death benefits in number 9 on page 61.

## B. Amount of Payment

If the member's death occurs before retirement, the named beneficiary receives a lump sum refund of all the member's pension contributions plus interest credited to the member's account, excluding contributions for widow and survivors' benefits. A single lump sum payment of \$1,000 is also made to the survivor beneficiary of the member.

## Plan Summary

An eligible spouse receives a monthly annuity equal to 30% of the member's final average compensation subject to a maximum of \$400. If children of the member are under the care of the spouse, the annuity is increased for each child, subject to a maximum of \$600 or 80% of final average compensation. If only eligible children survive, the monthly annuity may not exceed the lesser of \$600 or 80% of final average compensation. The maximum combined monthly payment to parents may not exceed \$400. If the member's death occurs after retirement or after termination of state employment but before the member receives a pension, the monthly benefit is the same as during active employment or 80% of the earned pension at date of death.

Monthly benefits payable to survivors of a member who was covered by social security as a state employee are reduced by one-half of the amount of benefits they are eligible to receive from social security as a widow(er). The minimum total survivor benefit payable to the survivors' annuity beneficiaries of a deceased member or annuitant shall be 50% of the amount of retirement annuity that was or would have been payable to the deceased member on the date of death.

### C. Duration of Payment

The monthly annuity payable to a spouse terminates upon death or remarriage prior to attainment of age 55; to children upon death, marriage, or attainment of age 18, except for a child who at age 18 is physically or mentally disabled and unable to accept gainful employment, which terminate at death or gainful employment. Dependent parents' benefits terminate at death or remarriage.

### D. Annual Increase in Benefit

The survivor benefit is increased by 3% each January 1, after receipt of benefits for one full year.

## 7. WIDOW'S ANNUITY OPTION

The widow of a male member who was a participant in the System prior to July 19, 1961, may have the option of taking a Widow's Annuity rather than the Survivors' Annuity.

### A. Qualification of Widow

An eligible widow receives a Widow's Annuity if she is age 50 or over or has in her care any of the member's unmarried children under age 18. If she is not age 50 and has no such children in her care, she becomes eligible at age 50.

### B. Amount of Payment

The Widow's Annuity consists of a lump sum payment of \$500, plus a monthly annuity equal to 50% of the pension earned or received by the member at the date of death. If the widow has in her care eligible children of the member, the monthly annuity is increased 5% because of each child, subject to a maximum payment equal to 66 2/3% of the earned pension. Monthly benefits payable to a widow of a member who was covered by social security as a state employee are reduced by one-half of the amount of benefits she is eligible to receive from social security as a widow.

### C. Duration of Payment

The monthly payment to the widow continues for her lifetime whether or not she remarries. If the amount of benefit was increased because of eligible children, it is adjusted downward as these children's benefits are terminated (death, marriage or attainment of age 18).

### D. Annual Increase in Benefit

The widows benefit is increased by 3% each January 1, after receipt of benefits for one full year.

## 8. OCCUPATIONAL DEATH BENEFIT

### A. Qualification of Survivors

If a member's death results from a job related cause, the spouse may be eligible for an Occupational Death benefit. If only unmarried children under age 18 survive, they may be eligible for the benefit. If neither spouse nor eligible children survive, a dependent father or mother may be eligible.

**B. Amount of Payment**

The nominated beneficiary receives a lump sum payment consisting of all contributions made by the member plus interest credited to the member account. A surviving spouse is entitled to a monthly benefit equal to 50% of the member's final average compensation. If children under age 18 also survive, the annuity is increased by 15% of such average because of each child subject to a maximum of 75%, if there is no eligible spouse and children under 18 survive, each child receives a monthly allowance of 15% of final average compensation. The combined payment to children may not exceed 50% of the member's final average compensation. If there is no eligible spouse or eligible children, a benefit of 25% of final average compensation is payable to each surviving dependent parent for life. The monthly benefit is reduced by any payments awarded under the Workers' Compensation or Occupational Diseases Acts.

**C. Duration of Payment**

The monthly annuity payable to a spouse terminates at death, or remarriage before age 55; to children at death, or attainment of age 18, or marriage.

**D. Annual Increase in Benefits**

The Occupational Death Benefit is increased by 3% each January 1 after receipt of benefits for one full year.

**9. OTHER DEATH BENEFITS**

If the beneficiary(ies) of the member do not qualify for any of the previously described death benefits, one of the following benefits is payable.

**A. Before Retirement**

If a member's death occurred while in state service the benefit consists of: (1) a refund of all contributions plus interest credited to the member's account; (2) a payment equal to one month's salary for each full year of pension credit not to exceed six month's salary.

If the member had terminated state service but not yet qualified for a pension, the benefit consists of a refund of all of the member's contributions to the System plus the interest credited to the member's account.

**B. After Retirement**

The benefit consists of a lump sum payment equal to the excess of contributions plus interest credited to the member's account over the total amount of pension payments made to the member. The minimum payment is \$500.

**10. NONOCCUPATIONAL DISABILITY BENEFITS**

**A. Qualification and Amount of Payment**

Available to any member who has established at least one and one-half years of creditable service and who has been granted a disability leave of absence by the employing agency. The benefit is 50% of final average compensation and credit to the member's account of service and contributions. It begins on the 31st day of absence from service on account of disability.

If the member has social security coverage as a state employee, the benefit payable by the System is reduced by the amount of any disability or retirement payment to which he is entitled under social security.

**B. Duration of Payment**

The member is eligible for the monthly benefit until the occurrence of any of the following events: (1) disability ceases; (2) resumption of gainful employment; (3) payments are made for a period of time equal to one-half of the pension credit established as of the date disability began; (4) attainment of age 65, if benefit commenced prior to the attainment of age 60; (5) the fifth anniversary of the effective date of the benefit if the benefit commenced on or after the attainment of age 60; or (6) death of the member.

### C. Increase in Benefit

The Nonoccupational Disability benefit shall be increased by 7% following the fourth anniversary of the benefit and 3% each year thereafter.

## 11. OCCUPATIONAL DISABILITY BENEFIT

### A. Qualification and Amount of Payment

Provided for any member who becomes disabled as the direct result of injury or disease arising out of and in the course of state employment.

The benefit is 75% of final average compensation plus a credit to the member's account of service and contributions. The cash benefit is reduced by any payment received under the Workers' Compensation or Occupational Diseases Acts.

### B. Duration of Payment

Monthly benefits are payable until the occurrence of any of the following events: (1) disability ceases; (2) resumption of gainful employment; or (3) attainment of age 65, if benefit commenced prior to the attainment of age 60; (4) the fifth anniversary of the effective date of the benefit if the benefit commenced on or after the attainment of age 60; or (5) death of the member.

### C. Increase in Benefit

The Occupational Disability benefit shall be increased by 7% following the fourth anniversary of the benefit and 3% each year thereafter.

## 12. TEMPORARY DISABILITY BENEFIT

### A. Qualification and Amount of Benefit

Available to any member who becomes disabled, has established at least one and one-half years of creditable service, has been denied benefits under the Workers' Compensation Act or the Workers' Occupational Diseases Act, and has filed an appeal with the Industrial Commission of Illinois. The benefit is 50% of final average compensation plus credit to the member's account of service and contributions. The benefit shall begin to accrue on the 31st day of absence from service and shall be payable upon the expiration of 180 days from the day the member last received compensation.

If the member has social security coverage as a state employee, the benefit payable by the System is reduced by the amount of any disability or retirement payment to which he is eligible to under social security.

### B. Duration of Payment

The member is eligible for the monthly benefit until the occurrence of any of the following events: (1) disability ceases; (2) resumption of gainful employment; (3) payments are made for a period of time equal to one-half of the pension credit established as of the date disability began; or (4) attainment of age 65, if the benefit commenced prior to the attainment of age 60; or (5) the fifth anniversary of the effective date of the benefit if the benefit commenced on or after the attainment of age 60; or (6) death of the member.

## 13. SEPARATION BENEFITS

Upon termination of state employment by resignation, discharge, dismissal or layoff, a member may obtain a refund of the contributions made to the System. By accepting a refund, a member forfeits all accrued rights and benefits in the System for himself and his beneficiaries.

## LEGISLATION

**LEGISLATIVE AMENDMENTS** - Amendments with an effective date during fiscal year 1991 having an impact on the System were:

### HOUSE BILL 3374 (P.A. 86-1338)

Amends the State Finance Act to prohibit transfers from any appropriation for state contributions to the System Trust Fund. Also, amends the State Finance Act to require that agencies (departments) remit the employer share of appropriated retirement contributions at the rate certified by the Board of Trustees of the System up to the amount appropriated for such purposes.

### SENATE BILL 1951 (P.A. 86-1488)

Major changes effected by the passage of this bill are as follows:

1. Added employees of the Illinois Rural Bond Bank as participants in the System.
2. Modified the date of application of the first automatic annual increase for widow and survivor annuities.
3. Added a 3% automatic annual increase for disability benefits and occupational death annuities.
4. Provides for the computation of an average final compensation amount for possible use in the payment of death and disability benefits.
5. Provided a six-month window during which refunds could be repaid at the rate of 2.5% per annum.
6. Allows for teachers employed by the Department of Corrections to transfer service credits to the System from Teachers' Retirement System upon payment of the amounts prescribed in the statute.
7. Allows a State Policeman or investigator for Secretary of State to establish creditable service for up to 10 years of service as a policeman under Article 5 of the Pension Code upon payment of the amounts prescribed in the statute.

**NEW LEGISLATION** - Amendments with an effective date subsequent to June 30, 1991, affecting the operation of the System.

### SENATE BILL 0045 (P.A. 87-0014)

Established the Early Retirement Incentive (ERI) program for active employees. Under certain circumstances, a member will be allowed to establish up to 5 years of creditable service by making payment of the amounts prescribed in the statute.

### SENATE BILL 0136 (P.A. 87-0011)

Provisions affecting the operation of the System are as follows:

1. System Trust Fund - Eliminates the six-month qualifying period for police positions covered by the System.
2. Social Security Fund - Amends the Social Security Enabling Act to allow the governing body of any political subdivision to levy taxes for social security contributions due pursuant to the mandatory social security federal law change.

**SENATE BILL 0341 (P.A. 87-0105)**

Although this bill did not directly affect the law governing the System Trust Fund, it will have a significant impact on the source of future employee contributions.

The bill provides for an appropriation of the employer pickup of employee retirement contributions to virtually all state agencies which participate in the System.

In many instances, the members will have either a reduced retirement contribution amount or no contributions deducted for the System. The State of Illinois, however, will provide all or a portion of the required employee contribution to the System.